International
Public Sector
Accounting
Standards Board

Consultation Paper
November 2009
Comments requested by April 30, 2010

Reporting on the Long-Term Sustainability of Public Finances

International Federation
of Accountants

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Consultation Paper, "Reporting on the Long-Term Sustainability of Public Finances," for publication in November 2009. Comments are requested by **April 30, 2010**.

Respondents are asked to submit their comments **electronically** through the IFAC website (www.ifac.org), using the "Submit a Comment" link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website Although IFAC prefers that comments be submitted electronically, e-mail may continue to be sent to edcomments@ifac.org and stepheniefox@ifac.org. Comments can also be faxed to the attention of the IPASB Technical Director at +1 (416) 204-3412, or mailed to:

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

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PREFACE

During its deliberations on the timing and extent of liabilities related to social benefits the International Public Sector Accounting Standards Board (IPSASB) concluded that traditional general purpose financial statements (GPFSs) cannot satisfy all the needs of users in assessing the future viability of programs that provide social benefits. The IPSASB formed this view regardless of (a) the approach that is taken to the point at which a present obligation for different sorts of social benefits occurs, (b) the extent of those present obligations and (c) the resultant liabilities. The IPSASB concluded that the information in GPFSs needs to be complemented by information on the long-term fiscal sustainability of those programs, including their financing. The publication of this Consultation Paper represents the end of the first phase of the resulting project on reporting the long-term sustainability of public finances.

The IPSASB is also in the process of developing a conceptual framework for the public sector. It issued a Consultation Paper in September 2008, covering the objectives of financial reporting, the scope of financial reporting, the qualitative characteristics of financial reporting and the reporting entity. Further consultation papers will be issued in 2010 covering elements and measurement. Many of the issues in the Conceptual Framework project are relevant to, and have been drawn upon in, this long-term fiscal sustainability project.

Information about the anticipated long-term consequences of governmental programs has become a regular feature of public reporting in a number of jurisdictions. In most cases this is a relatively recent development. IPSASB notes that the compilation of long-term fiscal sustainability projections has generally been carried out by professional groups such as economists, statisticians, and budget and policy specialists. This Consultation Paper proposes that such projections should be drawn on in preparing general purpose financial reports (GPFRs). The IPSASB would therefore particularly welcome comments from these other professional groups on this proposal.

EXECUTIVE SUMMARY

Long-term fiscal sustainability is the ability of a government to meet its service delivery and financial commitments both now and in the future. A number of demographic and technological factors have created fiscal pressures for many governments. The global financial crisis has significantly increased these pressures in many cases, which has led to heightened interest in the long-term financial consequences of government interventions. However, information on long-term fiscal sustainability is essential even without the additional pressures that arose as a result of the financial crisis.

Separate reports providing information about the anticipated long-term financial consequences of governmental programs have recently become a feature of public sector reporting in a number of jurisdictions. Long-term fiscal sustainability information for national governments has the potential to enhance both the historically based information provided in the traditional general purpose financial statements (GPFSs) and the additional information provided in general purpose financial reports (GPFRs). The IPSASB has therefore concluded that the presentation of information on long-term fiscal sustainability is necessary to meet the accountability and decision-making objectives of financial reporting.

Long-term fiscal sustainability information could be presented in a number of ways in GPFRs, whether prepared on the accrual basis or the cash basis. In the long term the IPSASB considers that the presentation of additional statements in GPFRs providing details of projections on future government spending and receipts may be the best way of satisfying users' needs. In many jurisdictions developing such statements would take some time. In the interim, therefore, the discussion of long-term fiscal sustainability issues and indicators as part of narrative reporting is a more realistic approach. Although this Consultation Paper focuses mainly on reporting by national governments, the IPSASB believes that simpler forms of long-term fiscal sustainability reporting are also appropriate for the consolidated reports presented at sub-national levels.

Long-term fiscal sustainability reporting involves complex analysis and assumptions that often use the expertise of a range of professions, including economists and statisticians. The IPSASB therefore does not think it appropriate to recommend specific indicators or methodological approaches. However, the IPSASB considers it important for the long-term fiscal sustainability information reported to meet the qualitative characteristics of financial reporting: relevance, faithful representation, timeliness, understandability, comparability and verifiability. It is also particularly important to disclose the basis of preparation and the key principles and methodologies underlying projections of inflows and outflows. Such disclosures are likely to include:

(a) The main demographic and economic assumptions;

(b) The sensitivity to changes in these key assumptions; and

(c) The extent to which the approach to modeling projections for age-related and non-age related programs differ.

Many of the indicators used to report fiscal sustainability such as comprehensive net worth, net financial worth and the fiscal gap are measures derived from statistical accounting. The boundary for long-term fiscal sustainability reporting is often therefore determined on statistical accounting or budgetary bases rather than on the control concept that governs the consolidated financial statements. This means that succinct explanations of differences between the various boundaries will need to be provided together with appropriate quantifications. Other disclosures should include (a) the time horizons for projections and the reason for the choice of those time horizons, (b) the frequency of reporting, (c) discount rates and their rationale and (d) the steps taken to enhance the reasonableness of assumptions.

The IPSASB believes that projections based on current policy will be most relevant and understandable to users. Therefore, any assumptions that have been made about changes to current policy should be disclosed, together with a sensitivity analysis showing how material modifications of assumptions affect projections. In making choices on which information to disclose, reporting entities should aim to demonstrate the extent of the fiscal challenges they face. Information about the fiscal challenge is required in order to meet the accountability objective for financial reporting.

REQUEST FOR COMMENTS

The IPSASB welcomes comments on whether you agree or disagree with the Preliminary Views in this Consultation Paper. Comments are most useful when they include the reasons for agreeing or disagreeing.

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).
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).
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).
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. 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).
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).

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).

CONTENTS

1 INTRODUCTION TO LONG-TERM FISCAL SUSTAINABILITY

1.1 Global Challenges Facing Governments

1.1.1 Governments and other public sector entities constantly face fiscal challenges, regardless of the stage of economic development of their jurisdictions. Such challenges include maintaining, or if possible, increasing the quantity and quality of goods and services provided to citizens, meeting entitlements for state pensions and other cash transfer entitlement programs, and servicing debt obligations within acceptable taxation levels.

1.1.2 A number of factors have created fiscal pressures on many governments. These factors include (a) demographic change, (b) technological advances creating new demands by citizens, and (c) costs in certain sectors, particularly health, accelerating more quickly than the general rate of inflation. In many developed countries the focus has been primarily on ageing populations which are leading to increases in health care expenditure and pensions for elderly people. In developing countries fiscal pressures are more likely to arise from a younger demographic profile, which stimulates a demand for greater educational spending, as well as different types of health spending, such as neonatal care.

1.1.3 The Organization for Economic Co-operation and Development's (OECD) has recently initiated a project on Fiscal Futures,[1] which identifies further fiscal challenges for governments in the form of:

- The risks imposed by climate change and natural disasters and their impact on future economic growth; and
- The need to replace ageing infrastructure.

1.1.4 The global financial crisis has significantly increased these underlying fiscal pressures in many jurisdictions. Citizens are questioning the long-run financial consequences of specific government interventions. Such interventions include (a) loan guarantees, insurance for bank deposits and the purchase of impaired financial assets, as well as (b) the broader fiscal stimuli deployed by governments and liquidity operations such as quantitative easing undertaken by central banks.

1.1.5 All these factors have led to an increasing awareness of the importance of long-term fiscal sustainability reporting in enabling stakeholders to hold governments to account and make key decisions. Users of financial statements are likely to be interested in the extent of the fiscal challenges facing governments in reconciling their spending and taxation policies over the medium to long term. The urgency with which these challenges need to be addressed and how these challenges are changing over time, is also likely to be of interest, so that decisions are well informed and governments can be held to account for the long term impact of their decisions. In addition, capital markets are looking for assurance that plans are in place to meet obligations to repay levels of national debt that are unprecedented in recent times.

[1] OECD Project on "Fiscal Futures, Institutional Budget Reforms and their Effects," initiated in early 2009.

1.2 Defining Long-Term Fiscal Sustainability

1.2.1 At a very high level, reporting on long-term fiscal sustainability involves an assessment of the extent to which governmental policies under existing legal frameworks can be met in the future, assuming certain fiscal constraints, principally on taxation levels. There is, however, no single, widely accepted global definition of the term "long-term fiscal sustainability."

1.2.2 Long-term fiscal sustainability can be assessed by looking at the expected path of future operating and capital expenditure, the implications for taxation, and the risks that assumptions used in determining that path will fluctuate materially. Such information typically includes the future cost of goods and services, the cost of entitlement programs, the cost of servicing debt obligations and the tax inflows and other resources that will be needed to fund these commitments and obligations. Information about the likely future resource needs for continued operation of those programs at existing levels can also provide input to decisions, such as whether to support continued operation of a program and at what level, or to advocate changes to a government's service delivery priorities.

1.2.3 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.

1.2.4 A number of governments and supra-national organizations have developed formal or implied definitions of long-term fiscal sustainability. In many cases these definitions have been developed in the context of medium-term fiscal planning, fiscal frameworks or budgetary frameworks. For example, long-term fiscal sustainability is typically linked to (a) specific targets such as a pre-determined Net Debt/Gross Domestic Product (GDP) ratio or a Gross/Net Debt/GDP per capita ratio and (b) the maintenance of taxation at a specified level of GDP. Where long-term fiscal sustainability is defined by reference to specific targets, overall governmental spending is said to be fiscally sustainable if it is contained within these pre-determined and publicly communicated targets over a specified period. In many European countries the frameworks adopted are largely those developed by the European Commission in the context of the Stability and Growth Pact.

1.2.5 The Australian Budget papers for 2008-09 define fiscal sustainability as "the ability of government to manage its finances so it can meet its spending commitments, both now and in the future." In its Exposure Draft, "Reporting Comprehensive Long-Term Fiscal

Projections for the U.S. Government"[2] issued in 2008, the US Federal Accounting Standards Advisory Board (FASAB) defined fiscal sustainability as the federal government's "ability to continue, both now and in the future, current policy without change regarding public services and taxation, without causing debt to rise continuously as a share of GDP." This definition is related to the approach linking long-term fiscal sustainability with debt not being on an 'explosive' path[3] and is more in harmony with the approach taken by many economists and statisticians.

1.2.6 In the absence of a common formal definition of long-term fiscal sustainability this Consultation Paper has used the following working definition adapted from the one used in the Australian budget papers:

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

1.2.7 This working definition recognizes that there are at least two dimensions to long-term fiscal sustainability. Long-term fiscal sustainability not only depends upon an ability to fund spending levels to provide goods and services, but also extends to the ability to service debt obligations. The working definition is expected to lead to the provision of information on the extent of the challenge faced in maintaining a sustainable fiscal path. Many consider that such information is critical to accountability. The definition avoids constraints on governments' ability to modify taxation levels, (notwithstanding the fact that some commentators consider that the extent of this ability may be practically quite limited in the current global environment). It also recognizes that governments are able to modify current policies for the delivery of goods and services.

1.2.8 The above definition applies only to long-term fiscal sustainability. It does not directly address environmental sustainability. Reporting on environmental sustainability is a hugely important subject in its own right, and there is an increasing recognition that assumptions about future levels of economic growth are likely to be affected by factors such as climate change and its impact on sectors such as agriculture. Climate change may also impose further financial pressures on government, such as increased expenditures on flood defenses and changes in demand for services, which will need to be reflected in the cash flow projections underpinning long-term fiscal sustainability reports.

1.3 Fiscal Sustainability Reporting at National Government Levels

1.3. Information about the anticipated long-term consequences of governmental programs has become a regular feature of public reporting in a number of jurisdictions. In most cases this is a relatively recent development (introduced over the last 10-15 years). The compilation of long-term fiscal sustainability projections has generally been carried out by economists, statisticians and budget and policy specialists.

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2 FASAB issued SFFAS 36, "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government," in September 2009. See Section Three.

3 Explosive path is the long-term trend where the growth in government debt exceeds the rate of economic growth leading to an unstable position at some point in the future.

1.3.2 Exhibit One provides an overview of the long-term fiscal sustainability reports currently produced at both national and supra-national levels. It provides details of report titles, the originating government department, executive or legislative agency, the year when such reports were first published and, where it exists, the legal requirement for such reports. However, it is not an exhaustive listing of currently produced long-term fiscal sustainability reports.

Exhibit One
Overview of Fiscal Future Reports at National and Supra-National Levels

Country	Legal Requirement	Title	Source	Start
Australia	Charter of Budget Honesty Act	Intergenerational Report	Treasury	2002
Denmark		A Sustainable Future	Ministry of Finance	1997
Germany		Report on Sustainability of Public Finance	Ministry of Finance	2005
Korea		Vision 2030	Ministry of Planning and Budget	2006
Netherlands	EC Stability Program	Aging and the Sustainability of Dutch Public Finances	Central Planning Bureau	2000
New Zealand	Public Finance Act	New Zealand's Long-term Fiscal Position	Treasury	1993
Norway		Long-term perspective for the Norwegian Economy	Ministry of Finance	2006
Sweden		Sweden's Economy (Annex to Budget)	Ministry of Finance	1999
Switzerland		Long-term Sustainability of Public Finance in Switzerland	Federal Department. of Finance	2008
United Kingdom	Code of Fiscal Stability	Long term Public Finance Report	Treasury	1999
US: Congressional Budget Office (CBO)		The Long term Budget Outlook	CBO	1991
US Government Accountability Office (GAO[4])		Long -Term Fiscal Outlook	GAO	1992
US: Office of Management and Budget (OMB)		Long -Term Budget Outlook in Analytical	OMB	1997

4 The Government Accountability Office was known as the "General Accounting Office" until 2004.

Country	Legal Requirement	Title	Source	Start
		Perspectives		
US: Financial Report of US Government		Statements of Social Insurance	Department of Treasury	2004
European Union Countries	Stability & Convergence Programming Surveillance	Public Finances in the EMU	Directorate General of Economic and Financial Affairs	2005
International Monetary Fund		Financial Transparency Reviews	Fiscal Affairs Department	2001

Source: OECD Fiscal Futures Project.

1.3.3 The discussion of existing types of fiscal sustainability reporting in this paper is based on (a) an informal survey completed by members of the Task Force set up to oversee this project, and (b) information collected and summarized by the OECD. Although much of the analysis in this Consultation Paper is developed from the conceptual underpinnings of accrual-based financial reporting, reporting on long-term fiscal sustainability is equally applicable to governments that report on the cash basis of accounting.

1.3.4 The next section of this paper considers how information on long-term fiscal sustainability relates to the reporting objectives proposed by the Board in its first Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities."

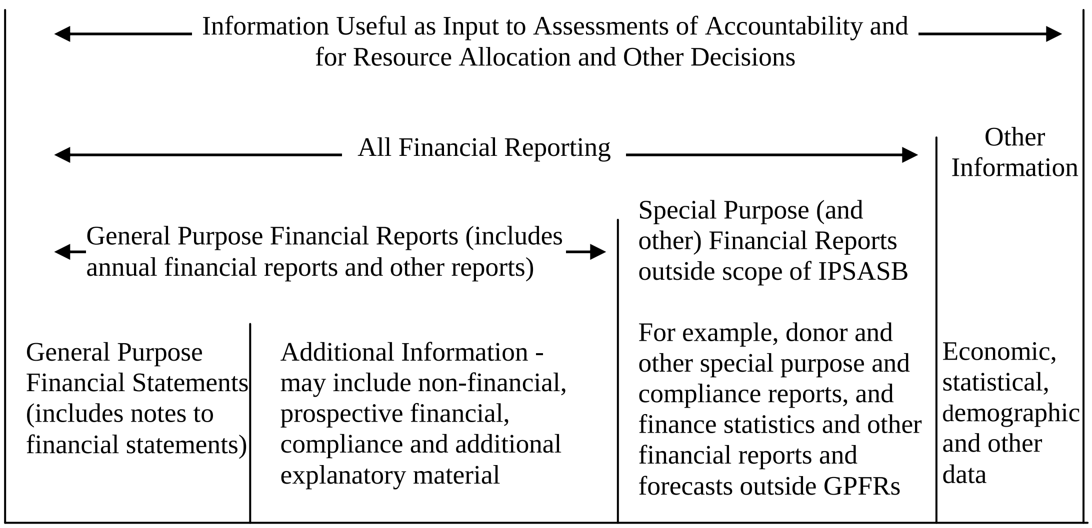
2. RELEVANCE OF LONG-TERM FISCAL SUSTAINABILITY INFORMATION TO GENERAL PURPOSE FINANCIAL REPORTING

2.1 Introduction

2.1.1 In its first Conceptual Framework Consultation Paper, issued in September 2008, the IPSASB distinguished traditional[5] general purpose financial statements (GPFSs) and general purpose financial reports (GPFRs). Exhibit Two (reproduced from that Consultation Paper) below illustrates the relationship between GPFSs and GPFRs.

Exhibit Two

Information needs of users



2.1.2 This section considers the need for information on long-term fiscal sustainability information in GPFRs. It includes sub-sections on:

- Information provided in GPFSs;
- Information provided in GPFRs;
- Areas where the information in GPFSs can be enhanced; and
- How long-term fiscal sustainability information can enhance the information in GPFRs.

2.2 Information Provided in General Purpose Financial Statements

2.2.1 IPSAS 1, "Presentation of Financial Statements" states that a complete set of GPFSs comprises:

- A statement of financial position;

[5] Paragraph 2.2.1 explains the composition of "traditional" general purpose financial statements.

- A statement of financial performance;
- A statement of changes in net assets/equity;
- A cash flow statement; and
- Notes to the financial statements, including a statement of significant accounting policies.

2.2.2 Where the entity makes its approved budget publicly available, IPSAS 1 also requires a comparison of budget and actual amounts as either a separate additional financial statement or by way of additional columns in the financial statements.

2.2.3 Currently, a key attribute of GPFSs is that they are historical in nature. This historical focus is useful for both accountability and decision-making purpose, but it means that very little information on how commitments to provide public services and entitlements and funding for those commitments through taxation and other significant revenues are reported in the GPFSs.

2.2.4 Although GPFSs use estimation techniques to determine the future recoverable amount of assets and the carrying amount of liabilities that will not be settled until future reporting periods, assets and liabilities are limited to present rights and obligations that arise from past events. In making these measurements, GPFSs assume that the entity's activities are sustainable for the foreseeable future, unless there is an intention to liquidate or cease operating the entity, or there is no realistic alternative to do so. Where there are material uncertainties about the entity's ability to continue as a "going concern", those uncertainties must be disclosed.

2.2.5 "Going concern" has generally been less relevant in the public sector than in the private sector because of the very broad tax-raising powers of national governments. Although sub-national entities may get into financial difficulties, their main service delivery commitments are generally transferred to restructured successor entities, rather than lapsing completely.

2.2.6 In summary, although accrual-based GPFSs are prepared on the going concern assumption, they are not intended to provide comprehensive forward-looking information. GPFSs are intended to focus on the present circumstances – the balances of resources and obligations existing at the reporting date. – and the performance of the entity during the reporting period covered by the statements. Therefore, the information in GPFSs needs to be complemented in order to facilitate an assessment of an entity's future financial viability.

2.3 Information Provided in General Purpose Financial Reports

2.3.1 As illustrated in Exhibit Two GPFRs include GPFSs. However, GPFRs are broader than GPFSs and may provide information about the future as well as the past. Both GPFSs and GPFRs are intended to meet the common information needs of a potentially wide range of users, who are unable to demand the preparation of financial reports tailored to their specific information needs. Exhibit Two also recognizes that other information outside the scope of GPFRs may be useful for decision-making and assessing accountability. Such information includes special purpose and other financial reports and a range of economic, statistical, demographic and other data. 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.

2.3.2 In the first Conceptual Framework Consultation Paper the IPSASB put forward a preliminary view that the scope of GPFRs should include "prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities." The Consultation Paper also noted that the scope of financial reporting and information that may be provided by GPFRs is developing and evolving in response to a number of factors including:

- The changing operating environment faced by entities which prepare GPFRs; and
- Users' needs for reliable and relevant information about new and innovative transactions that affect matters such as (a) the assessment of the financial position and performance of the entity, and (b) the discharge of its accountability.

2.3.3 There is no current expectation that broader information within the scope of GPFRs will be published in a single report that also includes GPFSs. Such information may be published in a number of separate reports.

2.4 Areas Where the Information Currently Reported in General Purpose Financial Statements can be Enhanced

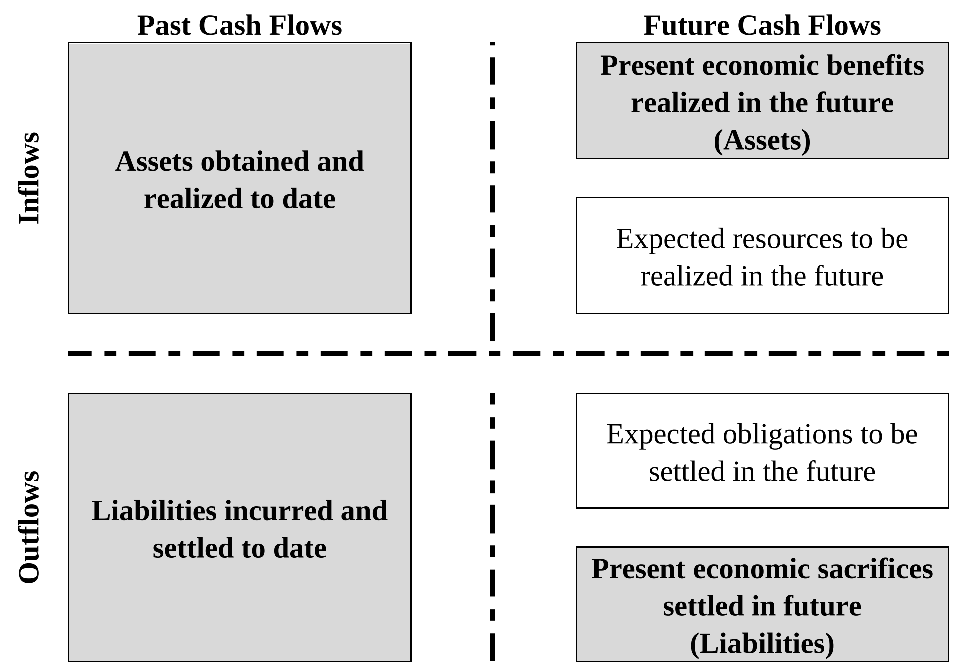
2.4.1 The information currently presented in the GPFSs can be enhanced in a number of areas to facilitate an assessment of governmental accountability. Taxation is such an area. Globally, prospective inflows of future tax revenue and other revenues anticipated to be generated to support the entity's activities in the future are not reported in GPFSs. Only revenue resulting from an identifiable taxable event is recognized. The IPSASB's Conceptual Framework project is considering the definition of an asset in a public sector context in detail.

2.4.2 The approach to recognizing liabilities in GPFSs is another area where the information in the GPFSs can be enhanced. Liabilities are recognized in the statement of financial position only when present obligations have arisen. There has been considerable debate about (a) when present obligations related to governmental programs arise and (b) the extent of resultant liabilities that should be recognized in the statement of financial position.

2.4.3 The IPSASB has considered this explicitly in its project on social benefits. Generally, governments reporting on the accrual basis of accounting have adopted an approach known as "due and payable". Under this approach, liabilities recognized at the reporting date are limited to cash transfers to individuals or households for which eligibility criteria have been satisfied, but which have not been settled at the end of a reporting period. Some have challenged the "due and payable" approach as being over-restrictive in its recognition of liabilities. However, even a broader interpretation of present obligations and the recognition of larger liabilities will not provide all the information that users need for accountability and decision-making purposes

2.4.4 Exhibit Three provides a simplified schematic of the statement of financial position. The shaded areas illustrate that the statement captures transactions for which there have been identified past events, including liabilities that will be settled in future reporting periods. However, as illustrated by the non-shaded areas, it does not recognize cash flows related to future revenues and future obligations for which there has been no identifiable past taxable event.

Exhibit Three
Information provided in the statement of financial position



2.4.5 Consistent with the above analysis, the IPSASB formed a preliminary view during the development of its project on social benefits that the GPFSs of an entity cannot satisfy all the needs of users in assessing the future viability of that entity and its major programs. The IPSASB holds this view regardless of (a) the approach that is taken to determining the point(s) at which a present obligation(s) occur(s), which may vary for different types of social benefits and other government programs (b) the extent of those present obligations and (c) the amount of the resultant liabilities.

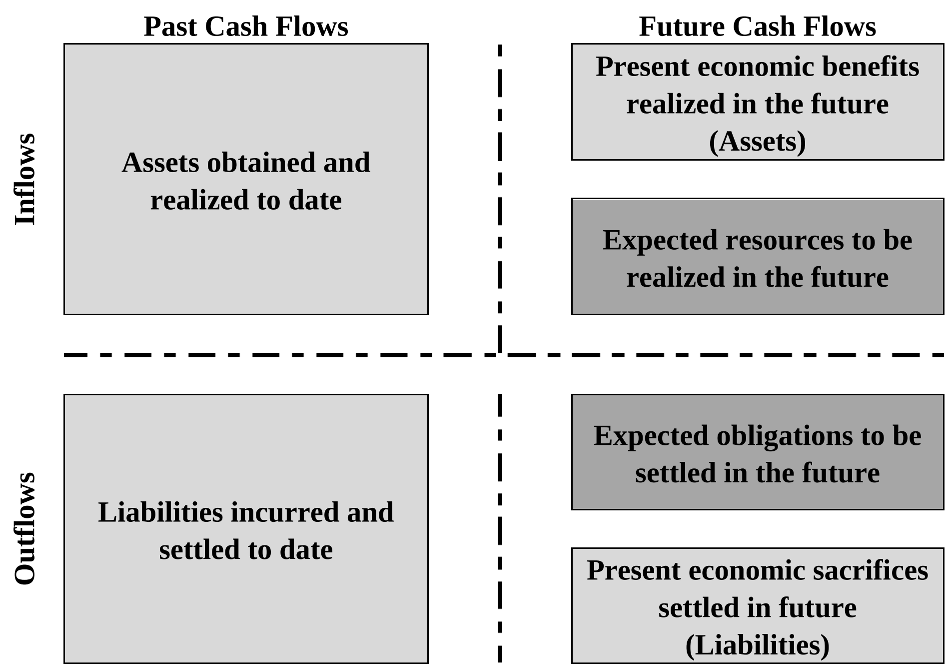
2.4.6 The IPSASB recognized that the long-term financial effects of government policies need to be made transparent to meet both the decision-making and accountability objectives of financial reporting. Therefore, in order to satisfy user-needs and meet the objectives of financial reporting, information presented in the GPFSs needs to be enhanced by presenting other information about the long-term fiscal sustainability of those programs, including their financing.

2.5 How Long-Term Fiscal Sustainability Information can Enhance the Information Currently Reported in General Purpose Financial Statements

2.5.1 Long-term fiscal sustainability reporting is not constrained by the focus on past events in the definitions of elements that currently govern GPFSs and therefore has the potential to enhance the information in the statement of financial position. In particular such reporting can provide information on prospective revenue inflows and outflows related to future obligations. Exhibit Four demonstrates the benefits of incorporating information on long-term fiscal sustainability in GPFRs, as indicated by the newly shaded areas.

Exhibit Four

How information on fiscal sustainability can enhance the information in the statement of financial position



2.5.2 The section of the MD &A on financial condition in the 2007 Financial Report of the United States Federal Government summarizes the position succinctly by stating 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."

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.

3. HOW COULD NATIONAL GOVERNMENTS REPORT INFORMATION ABOUT LONG-TERM FISCAL SUSTAINABILITY?

3.1 Introduction

3.1.1 This section considers how information on long-term fiscal sustainability might be reported as part of national government GPFRs. It examines three models:

- **Model One**: Additional statements providing details of projections;
- **Model Two**: Summarized projections in narrative reporting;
- **Model Three**: Cross-references in GPFRs to other reports addressing long-term fiscal sustainability.

3.1.2 These reporting approaches are not mutually exclusive. For example, it is possible to combine narrative reporting with an additional statement showing projected cash flows, as in the Annual Report of the US Federal Government.

Model One: Additional statements providing details of projections

3.1.3 As already identified in Exhibit One, the Financial Report of the US Federal Government currently includes Statements of Social Insurance (SOSI) that provides projected inflows and outflows of the most significant social insurance programs, principally Social Security, and Medicare. The format of this statement is shown in Exhibit Five. The estimates presented are actuarial present values of the projections and are based on the economic and demographic assumptions set forth in the Social Security and Medicare Trustees' reports and in the relevant agency performance and accountability reports for two additional more minor programs. 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). This summary is not limited to the entitlement programs reflected in the SOSI. The Citizen's Guide is also available as a stand-alone document.[6]

[6] The Citizen's Guide can be accessed at http://www.gao.gov/financial/citizensguide2008.pdf.

Exhibit Five

United States Government
Statements of Social Insurance
Present Value of Long-Range (75 Years, except Black Lung) Actuarial Projections

			**********UNAUDITED*********		
(In billions of dollars)	**2007**	**2006**	**2005**	**2004**	**2003**
Federal Old-Age, Survivors and Disability Insurance (Social Security): (Note 22)					
Revenue (Contributions and Earmarked Taxes) from:					
Participants who have attained age 62	477	533	464	411	359
Participants ages 15-61	17,515	16,568	15,290	14,388	13,576
Future participants (under age 15 and births during period)	16,121	15,006	13,696	12,900	12,213
All current and future participants	34,113	32,107	29,450	27,699	26,147
Expenditures for Scheduled Future Benefits for:					
Participants who have attained age 62	(6,329)	(5,866)	(5,395)	(4,933)	(4,662)
Participants ages 15-61	(27,928)	(26,211)	(23,942)	(22,418)	(21,015)
Future participants (under age 15 and births during period)	(6,619)	(6,480)	(5,816)	(5,578)	(5,398)
All current and future participants	(40,876)	(38,557)	(35,154)	(32,928)	(31,075)
Present value of future expenditures in excess of future revenue	(6,763)[1]	(6,449)[2]	(5,704)[3]	(5,229)[4]	(4,927)[5]
Federal Hospital Insurance (Medicare Part A): (Note 22)					
Revenue (Contributions and Earmarked Taxes) from:					
Participants who have attained eligibility age 65	178	192	162	148	128
Participants who have not attained eligibility age 15-64	5,975	5,685	5,064	4,820	4,510
Future participants (under age 15 and births during period))	4,870	4,767	4,209	4,009	3,773
All current and future participants	11,023	10,644	9,435	8,976	8,411
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age 65	(2,558)	(2,397)	(2,179)	(2,168)	(1,897)
Participants who have not attained eligibility age 15-64	(15,639)	(15,633)	(12,668)	(12,054)	(10,028)
Future participants (under age 15 and births during period))	(5,118)	(3,904)	(3,417)	(3,246)	(2,653)
All current and future participants	(23,315)	(21,934)	(18,264)	(17,468)	(14,577)
Present value of future expenditures in excess of future revenue	(12,292)[1]	(11,290)[2]	(8,829)[3]	(8,492)[4]	(6,166)[5]
Federal Supplementary Medical Insurance (Medicare Part B): (Note 22)					
Revenue (Premiums) from:					
Participants who have attained eligibility age 65	433	409	363	332	283
Participants who have not attained eligibility age 15-64	3,184	3,167	2,900	2,665	2,148
Future participants (under age 15 and births during period))	1,172	906	924	891	688
All current and future participants	4,789	4,481	4,187	3,889	3,119
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age 65	(1,834)	(1,773)	(1,622)	(1,475)	(1,306)
Participants who have not attained eligibility age 15-64	(12,130)	(12,433)	(11,541)	(10,577)	(8,845)
Future participants (under age 15 and births during period))	(4,257)	(3,407)	(3,408)	(3,277)	(2,622)
All current and future participants	(18,221)	(17,613)	(16,571)	(15,329)	(12,773)
Present value of future expenditures in excess of future revenue[6]	(13,432)[1]	(13,131)[2]	(12,384)[3]	(11,440)[4]	(9,653)[5]
Federal Supplementary Medical Insurance (Medicare Part D): (Note 22)					
Revenue (Premiums and State Transfers) from:					
Participants who have attained eligibility age 65	167	173	185	176	
Participants who have not attained eligibility age 15-64	1,627	1,700	1,790	1,857	
Future participants (under age 15 and births during period))	611	492	572	618	
All current and future participants	2,405	2,366	2,547	2,651	
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age 65	(794)	(792)	(880)	(773)	
Participants who have not attained eligibility age 15-64	(7,273)	(7,338)	(7,913)	(7,566)	
Future participants (under age 15 and births during period))	(2,699)	(2,121)	(2,440)	(2,431)	
All current and future participants	(10,766)	(10,250)	(11,233)	(10,770)	
Present value of future expenditures in excess of future revenue[6]	(8,361)[1]	(7,884)[2]	(8,686)[3]	(8,119)[4]	

Totals do not necessarily equal the sum of components due to rounding.

The accompanying notes are an integral part of these financial statements.

Source: Financial Report of US Government 2007.

3.1.4 The US Federal level approach is significant, as it is the only jurisdiction in which an additional statement providing projections of inflows and outflows for specific programs is currently required. The Comptroller General of the United States gave an unqualified audit opinion on the 2007 and 2008 SOSIs, although the form of the opinion differed from that given on the other financial statements. Section Seven provides the text of this opinion.

3.1.5 The Federal Accounting Standards Advisory Board (FASAB), which develops accounting standards for the federal level in the USA, has recently issued a standard, SFFAS 36, "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government," that extends the reporting of prospective information beyond the SOSI. The new statement will provide information about federal spending and receipts, including programs areas such as defense and education, as well as entitlement programs, and all revenue sources. A general outline of how this statement might be presented is shown in Exhibit Six below. It includes current year and prior year projections and presents the inter-period change in both absolute terms and as a percentage of GDP.

Exhibit Six

Long-Term Fiscal Projections for the U.S. Government

Amounts projected to 75 years	As of XXXX XX , 20XX (Current Year)		As of XXXX XX, 20XX (Prior Year)		Change from Prior Year	
	PV Dollars *in trillions*	% of the PV of GDP*	PV Dollars *in trillions*	% of the PV of GDP*	PV Dollars *in trillions*	% of the PV of GDP*
Receipts						
Medicare	$ XX.X	X.X%	$ XX.X	X.X%	$ X.X	X.X%
Social Security	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
All Other Receipts	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
Total Receipts	$ XXX.X	X.X%	$ XX.X	X.X%	$ X.X	X.X%
Non-Interest Spending						
Medicare	$ XX.X	X.X%	$ XX.X	X.X%	$ X.X	X.X%
Medicaid	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
Social Security	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
Major Program A	X.X	X.X%	XX.X	X.X%	X.X	X.X%
Major Program B	X.X	X.X%	XX.X	X.X%	X.X	X.X%
Rest of Federal Government**	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
Total Non-Interest Spending	$ XXX.X	X.X.%	$ XX.X	X.X%	$ X.X	X.X%
Non-Interest Spending in Excess of Receipts	$ XX.X	X.X%	$ XX.X	X.X%	$ X.X	X.X%

Source: FASAB

3.1.6 Locating the current SOSI and the new broader statement in the spectrum of information outlined in Section Two of this Paper is not straightforward. FASAB considers that the broader statement will initially be provided as additional information, but that at some point in the future it should be presented as a main financial statement.

Model Two: Summarizing projections in narrative reporting

3.1.7 A second approach to reporting long-term fiscal sustainability information in GPFRs is to mandate or encourage that narrative reporting, such as management commentary and

Management's Discussion and Analysis (MD&A), is to include information on long-term fiscal sustainability derived from other reports. Again recent US experience provides an example of how such reporting might be presented. The MD&A of the 2008 Financial Report of the US Government contains a section entitled "The Government's Financial Condition," which uses graphs, charts and tabular formats to present both historical information and forward projections over a 75-year period.

3.1.8 The historical information presented includes the budget deficit, net operating cost, key national economic indicators, such as real GDP growth and real construction growth, the consumer price index, unemployment levels and historical trends of debt held by the public as a percentage of nominal GDP. Projections presented include outflows on social insurance programs and other government programs, interest on debt, revenues, and debt held by the public as a percentage of GDP. The discussion in the MD&A has also been used as the basis of the separate stand-alone Citizen's Guide discussed above.

3.1.9 If long-term fiscal sustainability information were to be included in narrative reports and published in conjunction with the GPFSs, readers could require substantial explanation about the purpose of these additional reports and the differences between these reports and the GPFSs. Readers may already be presented with historical information on both a budgetary and actual basis, necessitating an explanation of any differences between them. Long-term fiscal sustainability information introduces a forward focus and requires further explanation of the information based on longer timeframes.

Model Three: Cross-references in GPFRs to other reports addressing long-term fiscal sustainability

3.1.10 A third approach to the reporting of long-term fiscal sustainability in GPFRs is to require narrative reports within the GPFRs to refer to long-term fiscal sustainability reports that are outside the GPFRs, but without providing any detailed discussion or interpretation of trends or indicators in the GPFRs. Proponents of this approach recognize the importance of information on long-term fiscal sustainability as part of meeting the objectives of GPFRs, but emphasize the difficulties in summarizing complex information from lengthy reports, and the risks to faithful representation if such information is selectively presented. For this reason they have reservations about the approaches outlined in Models One and Two above.

3.1.11 Proponents of Model Three do not advocate providing summarized information on fiscal sustainability in the GPFRs themselves. Instead they consider that user needs can be best satisfied by including in GPFRs cross-references to other publicly available reports.

3.1.12 Those that do not support Model Three consider that the highly detailed technical descriptions and complex presentational formats often used in separate long-term fiscal sustainability reports would not be sufficiently understandable for the users of GPFRs. They question whether simply including references to separate, reports on long-term fiscal sustainability would meet the qualitative characteristics of financial reporting and therefore achieve the objectives of GPFRs.

3.2 Conceptual Analysis of Potential Reporting Models

3.2.1 In assessing how long term fiscal sustainability information might be reported in GPFRs, the IPSASB referred to the qualitative characteristics of information (i.e. relevance, faithful representation, timeliness, understandability, comparability and verifiability.) The IPSASB's tentative view is that Model One would produce statements that are on the demarcation line between GPFSs and additional information within GPFRs.

3.2.2 A potential challenge with Models Two and Three is that the reporting boundary for special long-term fiscal sustainability reports is unlikely to be the same as that for the GPFSs. In order to meet accountability and comparability requirements that apply to GPFRs, if information on long-term fiscal sustainability were to be included in GPFRs, explanations would have to be provided of entities and transactions that are within the boundary of the consolidated GPFSs, but not within the boundary for long-term fiscal sustainability reporting and vice-versa (see Section Four).

3.2.3 Overly complex explanations risk impairing understandability. However, as long as the information reported addressed major areas such as demographic change, simplifying assumptions could still allow an understandable and useful report to be derived in a cost-effective manner for inclusion in the GPFRs. As noted in Preliminary View One, the Board does not consider that GPFRs are complete without adequate consideration of the long-term viability of government programs and government's ability to meet financial commitments. For this reason the Board's preliminary view is that Model Three is inappropriate. The Board does not consider that references alone to special long-term fiscal sustainability reports provide users with the information they need for decision-making and accountability purposes.

3.2.4 The IPSASB believes inclusion of additional statements providing details of projections, as well as a discussion of summarized projections in narrative reporting, as suggested in Models One and Model Two, would assist GFPR reporting objectives. Because the form and content of long-term fiscal sustainability reporting is still evolving the IPSASB does not believe it should prescribe either approach at this stage. Instead the IPSASB proposes to encourage the production of additional statements providing details of fiscal sustainability projections as an eventual objective. As an interim step the Board encourages the evolution of approaches for presenting information on long-term fiscal sustainability in narrative reporting.

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.

4. THE REPORTING ENTITY AND LONG-TERM FISCAL SUSTAINABILITY REPORTING

4.1 Introduction

4.1.1 Previous sections of this Consultation Paper have:

- Established that long-term fiscal sustainability reporting is an aspect of fiscal management that is of acknowledged, and growing, global importance;
- Put forward a preliminary view that information on long-term fiscal sustainability is necessary to achieve the objectives of financial reporting;
- Identified ways in which long-term fiscal sustainability reporting could enhance the information in GPFRs; and
- Proposed a preliminary view on how IPSASB guidance might recommend that information on long-term fiscal sustainability should be presented in GPFRs.

4.1.2 This section considers reporting boundary issues[7]. It examines the differences between reporting boundaries based on the control concept that governs compilation of consolidated financial statements and reporting boundaries based on the statistical basis of accounting and on budget accounting. The IPSASB's project on the Conceptual Framework is considering the issue of the reporting entity. The potential application of long-term fiscal sustainability reporting at sub-national levels is discussed. Finally this section considers whether long-term fiscal sustainability information might be presented in consolidated reports or in the reports of individual entities within the economic entity.

4.2 Reporting Boundary Issues

4.2.1 Globally only a minority of governments use a reporting boundary for long-term fiscal sustainability reporting that is based on the control concept governing GPFSs. The main issue is whether this is an obstacle to the reporting of information on long-term fiscal sustainability in the GPFRs and, if so, what steps can be taken to address this.

Reporting boundary based on the control concept

4.2.2 Both IPSAS 6, "Consolidated and Separate Financial Statements" and the separate IPSAS on the cash basis of accounting, "Financial Reporting Under the Cash Basis of Accounting" provide requirements and guidance for determining the reporting boundary for consolidation purposes. Under both IPSASs, application of the concept of control determines whether an entity is within the reporting boundary. Control of an entity is defined as "the power to govern the financial and operating policies of another entity so as to benefit from its activities." The term "economic entity," rather than the private sector term "group reporting entity," is used in both IPSASs. An economic entity is a group of entities comprising a controlling entity and one or more controlled entities.

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7 The approach to determining which separate reporting entities are presented as a single reporting entity in consolidated financial reports.

4.2.3 The definition of control includes both a "power element" (the power to govern the financial and operating policies of another entity, at least at the strategic level) and a "benefit element" (the ability of the controlling entity to benefit from the activities of the other entity. If either or both of these elements are absent an entity would not be controlled and would therefore not be within the reporting boundary.

Reporting boundaries based on statistical accounting and budgeting approaches

4.2.4 Although there are exceptions, such as New Zealand and the SOSI at the US Federal Government level, 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.

4.2.5 Statistical accounting bases reflect requirements consistent with, and derived from, the *System of National Accounts 1993* (SNA 93) prepared by the United Nations and other international organizations. SNA 93 has been updated and the new "SNA 2008" will be introduced across countries in the coming years. These statistical bases of financial reporting focus on the provision of financial information about the General Government Sector (GGS). The GGS comprises those non-profit entities that undertake non-market activities and rely primarily on appropriations or allocations from the government budget to fund their service delivery activities. The full public sector comprises (a) the GGS, (b) the public financial corporation sector (PFC), such as government financial institutions, and (c) the public non-financial corporation sector (PNFC), such as government owned utilities.

4.2.6 GPFSs consolidate only controlled entities. In some jurisdictions a national government controls state/provincial and local government entities in accounting terms, and therefore those entities are consolidated in the GPFSs; in other jurisdictions there is no control relationship. For example, whereas the local government tier will be consolidated within "whole of government" accounts in the United Kingdom, that sector is not consolidated in whole of government accounts in Australia and New Zealand. Under the statistical basis of financial reporting, the GGS of all levels of government are combined. This means that in many jurisdictions the GGS will include entities that are not consolidated in the GPFSs. One advantage of boundaries based on the GGS is that they enhance global comparability, because variations in relationships between national and sub-national government would not affect the boundary. Statistically-based information may therefore be useful to the users of GPFRs in order to complement information based on IPSAS 6 boundaries.

4.2.7 To meet accountability requirements, the IPSASB believes that long-term fiscal sustainability information included in GPFRs should be prepared for the same reporting entity as for GPFRs. This would provide greater clarity regarding the sources of funds available to the reporting entity and the scope of obligations that an entity must meet. Where the underlying fiscal sustainability information is prepared using another boundary, it should be adjusted to provide consistency with the GPFR/GPFS reporting boundary. IPSAS 22, "Disclosure of Financial Information about the General Government Sector" prescribes reconciliation requirements for entities that elect to disclose in their GPFRs, financial information about the statistically based GGS and provides illustrative examples of how to present such reconciliations.

4.2.8 Similar challenges exist where the boundary for long-term fiscal sustainability reporting is set on a budgetary basis. This may occur where the consolidated financial statements include financial information on agencies (a) that, although controlled, have a certain amount of operational autonomy and are subject to separate budgetary approvals, or (b) where the budget is prepared only for the GGS. It may also be the case that the budget and financial statements are compiled on different accounting bases, so that the baseline position differs. IPSAS 24, "Presentation of Budget Information in Financial Statements" provides further consideration on reconciling the budgetary information and information presented in the financial statements.

4.3 Fiscal Sustainability Reporting at Sub-National Levels

4.3.1 This Consultation Paper has so far focused on the consolidated national level of government. Although long-term fiscal sustainability reporting has become more widespread as shown in Exhibit One, it is less common at the sub-national levels. Portland (Oregon) and Maricopa County (Phoenix, Arizona) are large municipal entities in the United States that have produced fiscal condition reports. The latter is the most rapidly growing statistical metropolitan area in North America. Both of these reports are primarily historical in nature, (a) providing historic ten year trend information on a range of financial and demographic variables, (b) highlighting favorable and unfavorable trends and, (c) in the case of Maricopa, presenting a significant amount of comparative data with other large US municipalities.

4.3.2 In Canada the Provincial Government of Ontario published a report, "Towards 2025: Assessing Ontario's Long-Term Outlook," in 2005. This report presented a long-range assessment of Ontario's economic and fiscal future. It included a description of anticipated changes in the Ontario economy and in the province's demographic profile over a 20-year horizon, and a description of the potential impact of these changes on the public sector and on Ontario's fiscal situation during that future period. It also presented an analysis of key fiscal issues likely to affect the long-term sustainability of the economy and the province's public sector.

4.3.3 Time horizons for sub-national reporting tend to be much shorter than those adopted at the national level. The 20-year time horizon in Ontario appears atypical for sub-national levels. For example the 'Financial Condition Report on the State of New York" by the State Comptroller primarily focuses on historical trends, but does include a section on "Implications for the Future" which illustrates forward trends over a five-year horizon, including the proportion of state funds projected to be consumed on Medicaid, school funding and meeting debt service obligations. In New Zealand local governments are required to publish budgets with 10-year time horizons.

4.3.4 The US Governmental Accounting Standards Board (GASB), which promulgates accounting standards for the sub-federal levels in the USA, has a project on "Economic Condition Reporting: Fiscal Sustainability." The project's aim is (a) to identify the information that users require to assess a sub-federal government entity's economic condition and its components, including information regarding long-term fiscal sustainability, (b) to compare these needs with the information users receive in the comprehensive annual financial report and other sources and (c) to consider whether guidance or guidelines should be considered for the remaining information. The principal focus of the project is for GASB to consider whether any additional information necessary for assessing a government's economic condition should be required or encouraged for inclusion as part of general purpose financial reporting. This project also will consider the information identified by users as necessary to assess the risks associated with a sub-federal entity's intergovernmental financial dependencies.

4.3.5 The definition of economic condition used by GASB comprises three components: financial position, fiscal capacity and service capacity. Financial position is an entity's assets, liabilities, and net assets, derived from the statement of financial position. Fiscal capacity is the ability to meet financial obligations as they come due on an ongoing basis and is therefore linked to debt maturity and liquidity. Service capacity is an entity's ability and willingness to meet its commitments to provide services on an ongoing basis. Consistent with the IPSASB's working definition of long-term fiscal sustainability (see Section One), this GASB definition recognizes both future service delivery commitments and the servicing of debt obligations.

4.3.6 The IPSASB believes that long-term fiscal sustainability information is also required at sub-national levels so that the GPFRs of sub-national entities will meet both the decision-making and accountability objectives of financial reporting. However, the nature and extent of the reports required to meet these objectives will vary between entities as discussed in Section Five.

4.4 Consolidated Financial Reports or Financial Reports of Individual Entities?

4.4.1 Regardless of the levels of government for which entities are required to report information on long-term fiscal sustainability, there is an issue whether requirements (a) should be linked and restricted to the consolidated financial reports, comprising the controlling entity and controlled entity/entities, or (b) whether they should apply to the individual financial reports of controlled entities.

4.4.2 Determining whether the benefits of information for the users of the financial statements of controlled entities justify the costs of providing that information, may depend on a number of factors. They include whether a controlled entity has significant tax generating powers or debt servicing obligations, and therefore whether users exist for fiscal sustainability information. In general, it seems questionable whether the cost of producing reports on fiscal sustainability by individual entities, within the economic entity, is likely to justify the benefits to users of that information. Furthermore, there may be risks to understandability if individual entities within an economic entity produce separate sustainability reports and disclosures. It could also be misleading if entities with limited tax-raising powers provide projections based on taxation decisions over which they have no control, without disclosing this fact.

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.

5 WHICH LONG-TERM FISCAL SUSTAINABILITY INDICATORS SHOULD BE REPORTED?

5.1 Introduction

5.1.1 This section considers which long-term fiscal sustainability indicators should be reported by different entities and refers to the qualitative characteristics of financial reporting.

5.2 Indicators Currently Used

5.2.1 Publicly available reports on fiscal sustainability contain a range of indicators. Examples of reported indicators together with working definitions include:

- **Gross debt:** The sum of government securities (on consolidated basis), loans received and other borrowing, deposits held and advances received.
- **Net debt:** Gross debt minus the sum of investments, loans made, cash and deposits, and advances paid.
- **Net Worth:** Total assets (financial and non-financial) minus total liabilities (debt, superannuation and other) minus contributed capital.
- **Net Financial Worth:** Total financial assets minus total liabilities minus shares and other contributed capital.
- **Fiscal gap:** The size of the immediate and permanent increase in revenues or decrease in outlays, expressed as a percentage of GDP, that would be necessary to keep debt at or below its current share of GDP for a future projection period.
- **Inter-temporal budget gap:** Derived from the inter-temporal budget constraint (IBC). The IBC calculates the primary balance (surplus or deficit exclusive of interest payment) required to stabilize (eliminate, in some versions) the debt burden. This is done by discounting to present value all projected future revenue and spending flows plus the current debt burden. An inter-temporal budget gap exists when the present discounted value of projected primary balances does not cover the current debt burden.
- **Fiscal dependency:** Extent to which an entity is dependent upon sources of funding outside its control.

5.2.2 Many of the above indicators are generally presented as a proportion of Gross Domestic Product or in per capita terms. This section considers whether the IPSASB should recommend a minimum set of indicators, which might be disclosed in the GPFRs regardless of the prominence that they play in a particular jurisdiction's fiscal framework. The advantage of such an approach would be the promotion of global consistency. The disadvantages would be that there appears to be no consensus on the relevance of these indicators as yet, and they may be of limited local or regional significance. For example, gross debt may be misleading because it fails to recognize trends such as the accumulation of assets in public sector pension funds. Misgivings have been expressed in New Zealand about the use of fiscal gap information, and in Australia the primary indicator of fiscal sustainability has been changed from net debt to net financial worth. Care also needs to be taken when comparing measures over time and between jurisdictions as some measures, such as the inter-temporal budget gap, are sensitive to the starting year of the projection and the discount rate.[8]

5.3 Relevance of Different Types of Indicators

5.3.1 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.

5.3.2 Solvency is relevant at all levels of the public sector. Therefore debt projections will be relevant to all bodies. However, the relevance and salience of the other dimensions above may (a) vary between governmental levels and (b) will depend on factors such as size and tax-generating powers. For example, the growth dimension is important for national governments and for larger sub-national entities, particularly those with powers over corporate taxation and economic regeneration powers. It may, though, be of more limited significance in predominantly suburban and residential municipalities that have a limited ability to affect economic activity in a larger metropolitan area.

5.3.3 Similarly the stable taxation dimension will be at the core of analysis for national governments. It may, however, be of more limited relevance for entities with limited tax-generating powers, which are dependent on inter-government transfers for a high proportion of their revenues.

5.3.4 GDP is a relevant indicator for large and economically significant sub-national entities in federalized structures such as American states, Australian states, Canadian provinces and certain European regions with high levels of economic activity. However, it is unlikely to be relevant or even available for small municipalities. Similarly the fiscal gap and inter-temporal budget constraints are national level constructs that apply to the entire public sector and cannot easily be applied to discrete sub-national entities.

[8] Allen Schick "Sustainable Budget Policy Concepts and Approaches" (2008).

5.3.6 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.

5.4 Relevance of Qualitative Characteristics of Financial Reporting

5.4.1 IPSASB's Conceptual Framework project has considered the qualitative characteristics of financial reporting. The qualitative characteristics of information included in GPFRs are the attributes that make that information conducive to achieving the objectives of financial reporting – that is, for accountability purposes and for making resource allocation, political and social decisions. From the accountability perspective it is particularly important that the long-term fiscal indicator(s) chosen and the supporting narrative describe the scale of the fiscal challenge facing the entity.

5.4.2 The qualitative characteristics of information included in GPFRs proposed in the IPSASB's first Conceptual Framework project are relevance, faithful representation, timeliness, understandability, comparability and verifiability. Materiality, cost and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on that information. All these characteristics are relevant in assessing which information on long-term fiscal sustainability should be provided in the GPFRs.

5.4.3 These qualitative characteristics have been analyzed and developed primarily for GPFSs and a number of issues are likely to arise in their application to long-term fiscal sustainability information. For prospective information to be useful for decision-making and valuable in demonstrating accountability it needs to be transparent, thereby reflecting the qualitative characteristics of relevance and faithful representation. Basing assumptions on published fiscal frameworks and targets is therefore important. The use of prospective information also gives rise to issues about the verifiability of the information. Both areas are discussed in a later section of this paper. The profile of indicators across time is also likely to be significant as the indicators may be volatile; reporting an indicator at just one point may therefore be misleading.

5.4.4 As a result of the differing relevance of the various types of indicators, and the extent to which they would meet the qualitative characteristics of financial reporting, the Board does not consider that a uniform set of indicators should be recommended at this stage. Instead it considers that the reasons for selecting particular indicators should be disclosed and supported by reference to the qualitative characteristics of financial reporting. It is good practice to report comparative information and to disclose the reasons for ceasing to report indicators, if this occurs. The avoidance of frequent changes will provide stability and enhance understandability by users.

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.

6 BASIS OF PREPARATION: KEY PRINCIPLES

6.1 Introduction

6.1.1 This section of the Consultation Paper looks at (a) the programs and transactions that are covered by long-term fiscal sustainability reporting and the principles that should be adopted for their inclusion in GPFRs. The basis of accounting – whether statistical, accrual or budget can influence the programs and transactions that are reported, and the following sections should be considered in the context of the areas covered in Sections Four and Five.

6.2 Current versus Future Policy

6.2.1 Preparers of financial statements generally do not predict governmental actions and do not assume that programs will discontinue, unless legislation to that effect has been enacted at the reporting date. Although this principle is sound for the GPFSs, it is less clear that it is always appropriate for long-term fiscal sustainability projections disclosed in the GPFRs.

6.2.2 In the context of long-term fiscal sustainability tensions can result from conflicts in legal obligations or if current programs have sunset provisions. An example of such tension is where a requirement that benefits are only paid out of a segregated fund that is projected to be exhausted may not be compatible with the projected volume of entitlements. Programs subject to sunset provisions may be replaced by similar programs, so adopting a strict "legal termination" principle may lead to the understatement of projected outflows, thereby impairing the usefulness of information. A principle that has been largely adopted for reasons of prudence in the GPFSs might lead to imprudent projections for long-term fiscal sustainability.

6.2.3 The projections of participation in the labor market in the UK's December 2006 Long-Term Public Finance Report actually reflected the Government's intentions to raise the age of entitlement for the state pension even though legislation to effect such a change had not been enacted at the date of publication. The Report acknowledged the difficulty of predicting with complete accuracy the impact of changed state pension entitlement dates on labor markets and therefore modeled three different variants of that impact. Notwithstanding such estimation complexity the approach of the UK shows that there may be cases where making projections on the basis of firmly announced Government proposals can provide more relevant information than using a current legal position, one that is highly likely to be superseded.

6.2.4 The preliminary view of the IPSASB is that it is good practice for disclosures to assume that current policy continues for those significant expenditures that are individually projected; that is future events should not be incorporated in assumptions. For expenditures that are not individually projected, the distinction between current and future policy is unlikely to be critical to the projections and it will be important to disclose the general assumptions that provide the basis for projecting such expenditure.

6.2.5 It is also useful to distinguish between top-down and bottom-up approaches. Under top-down approaches assumptions are made that tax policies and fiscal rules do not change.

Conversely, under bottom-up approaches, each material individual expenditure or revenue item representing existing government policy is projected and agreed. The United Kingdom has used both approaches in its public reporting on fiscal sustainability: top-down modeling approaches in its "Economic and Fiscal Strategy Report" and bottom-up approaches in its "Long-Term Fiscal Sustainability Report." New Zealand has also adopted a top-down approach.

6.2.6 Under bottom-up approaches each material individual expenditure or revenue item is projected and aggregated. Bottom up approaches can involve both (a) a full set of modeled assumptions and projections and (b) a more simplified approach, whereby only certain programs are modeled and spending on other programs is assumed to remain constant as a proportion of GDP over the time horizon.

6.2.7 Bottom-up approaches and top-down approaches can be complementary. Individual expenditures are projected on a bottom-up basis and fiscal policies applied on a top-down basis to illustrate the scale of the fiscal changes that are necessary to achieve a sustainable path. It is therefore important that GPFRs disclose how these two approaches have been used.

6.3 Revenue Inflows

6.3.1 As already noted, one of the main advantages of fiscal sustainability reporting is that, unlike the GPFSs, such reporting can take into account projected inflows from taxation and other sources for which the taxable event giving rise to an inflow is in the future (see Section Two).

6.3.2 All of the jurisdictions informally surveyed for this paper include projections of taxation and other government financing. In most jurisdictions the approach is to assume an unchanged tax policy over the projection period. The European Commission suggests that this reflects two main assumptions:

- The main tax bases remain constant as a share of GDP, and there is no change in the structural wage share of the economy, or the savings rate of households.
- The average tax rate is constant on the different tax bases, which is consistent with assuming an indexation of all thresholds, bands, minima and exemption of the tax system on average wage.

6.3.3 Adopting such an approach involves a modification of the principle governing the GPFSs that only legally enacted measures should be taken into account. Assuming that personal taxation is a constant proportion of GDP is also a commonly used and straightforward way of dealing with "fiscal drag", where increases in nominal incomes result in individuals moving into higher tax bands. However, this assumption is not used in all jurisdictions. In its 2006 report, "Long-Term Fiscal Position" New Zealand expressed reservations about this approach by suggesting that "assuming a constant tax to GDP ratio is a strong assumption." For personal taxation New Zealand is therefore considering adoption of a more sophisticated approach.

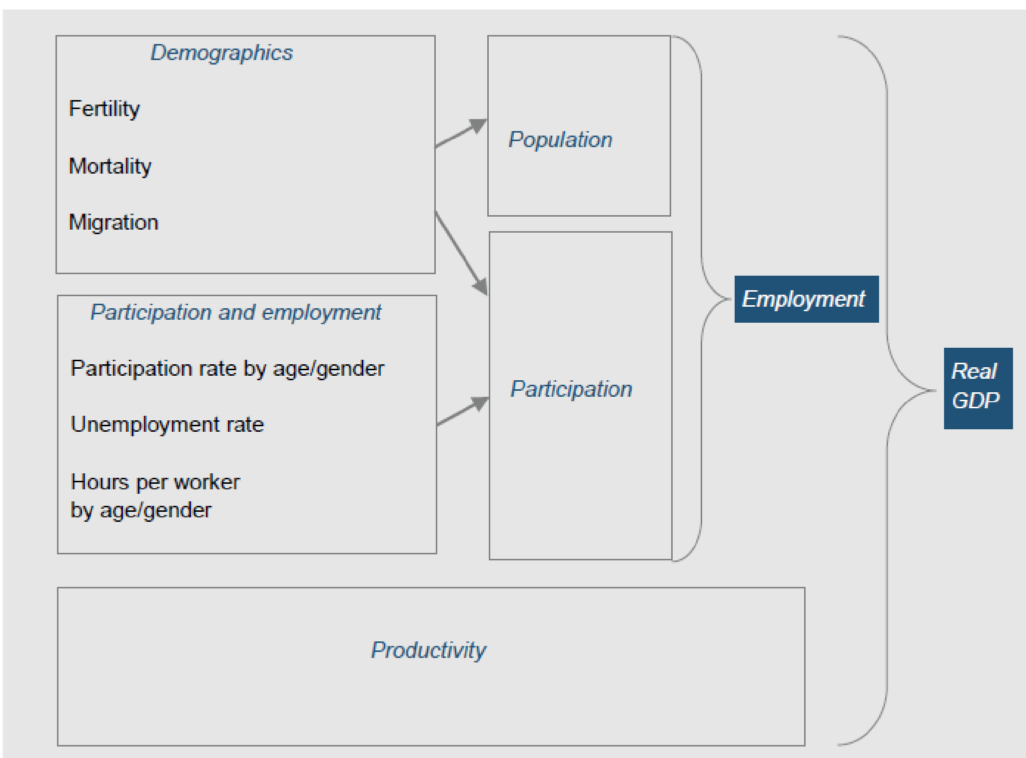
6.3.4 In the context of long-term fiscal sustainability projections in the GPFRs the most important requirements are that users are informed of the main sources of tax revenue and the way in which the tax base is projected to grow (or diminish) over the reported time horizon i.e., (a) where revenues are modeled individually and the principal assumptions, or (b) where revenues are not modeled individually, but instead are projected to grow in line with GDP.

6.4 Demographic and Economic Assumptions

6.4.1 Although there is considerable congruence between assumptions used by governments in making projections there are differing ways of classifying them. For example, Australia disaggregates real GDP into three components: population, participation and productivity. Population is the number of people of working age, participation is the average number of hours worked in the labor force by each working-age person and productivity is the average output produced per hour worked. Population is determined by assumptions about fertility, mortality and migration. Population also has an impact on participation because employment levels and hours worked are related to both age and gender. This disaggregation is shown schematically in Exhibit Seven, which is reproduced from the most recent Australian Commonwealth "Intergenerational Report."

Exhibit Seven

Disaggregating GDP: The Australian Commonwealth Approach



Source: Australian Commonwealth Treasury: Intergenerational Report 2.

6.4.2 Accounting standards that rely on prospective information to measure the impact of past events on items reported in the financial statements require disclosure of the main assumptions. For example, IPSAS 25, "Employee Benefits" requires disclosure of principal actuarial assumptions for determining liabilities and assets related to post-employment obligations. These include the expected return on plan assets, the expected rates of salary increases and medical cost trends.

6.4.3 Given the increasing significance of environmental sustainability, assumptions may need to take into account environmental factors, such as the depletion and degradation of ecosystem services, and the impact of water and finite natural resources on estimates of economic growth.

6.4.4 The IPSASB believes that it is good practice to disclose all key assumptions underpinning long-term fiscal sustainability projections in the GPFRs. The challenge for preparers is how to distill a very complex process into an explanation that is succinct and understandable to users of the GPFRs, but does not over-simplify and therefore diminish the reliability of the information reported.

6.5 Age-Related and Non Age-Related Programs

6.5.1 A common approach is to distinguish programs that are age-related and subject to demographic risk from programs that are non-age related or where ageing and demography are not key drivers of spending pressures. For example, in developing its Intergenerational Reports, the Australian Commonwealth Government has individually modeled health, aged care, social security payments and education – which accounted for around 70 per cent of government spending in 2007-08. Other areas of Government spending, such as defense and national security, the environment, transport and communications infrastructure, and public order and safety have not been modeled individually, but have been assumed to grow broadly in line with GDP. The rationale for this assumption is that these other areas do not have a clear link with demographic factors. Furthermore, given the diverse nature of these spending areas, it is difficult to project spending with certainty. This aggregated approach and the assumption that spending will grow in line with GDP, provides some flexibility. This flexibility results from allowing spending to increase as a proportion of GDP in some areas while being offset by declines in spending in other areas. France and Switzerland have adopted broadly similar approaches, distinguishing age-related and non-age related expenditure: non-age related expenditure is projected to be constant in real terms or to be a fixed proportion of GDP.

6.5.2 For information on long-term fiscal sustainability to be relevant to users of GPFRs the IPSASB is of the view that all material programs and transactions must be reflected. If this is not done, it is important to clearly identify the material programs and transactions that are not included are clearly identified. This particularly applies to (a) entitlement programs such as social security, aged pensions and medical insurance and also (b) obligations related to public sector occupational pension plans. Omission of such programs and plans will understate expenditure projections and may affect the relevance and reliability of information**.**

6.6 Impact of Legal Requirements and Policy Frameworks

6.6.1 In some jurisdictions long-term fiscal sustainability reporting is governed by a legal or regulatory framework (see Exhibit One which notes legal requirements for sustainability reporting). Such frameworks typically cover responsibilities for preparing and presenting reports. They may also specify the frequency of publication of such reports, and may reflect the requirements of supra-national bodies such as the European Commission. An example of such a national-level framework from New Zealand is shown below in Exhibit Eight.

Exhibit Eight

Governing Legal Framework for Development and Reporting of Long-Term Fiscal Sustainability in New Zealand

Section 26N of the Public Finance Act 1989 (as amended in 2004) states:

Statement on long-term fiscal position

1. Before the end of the second financial year after the commencement of this section and then at intervals not exceeding 4 years:
   (a) The Treasury must prepare a statement on the long-term fiscal position; and
   (b) The Minister must present each statement to the House of Representatives.
2. The statement must:
   (a) Relate to a period of at least 40 consecutive financial years commencing with the financial year in which the statement is prepared; and
   (b) Be accompanied by:
      i. a statement of responsibility signed by the Secretary stating that the Treasury has, in preparing the statement under subsection (1), used its best professional judgments about the risks and the outlook; and
      ii. a statement of all significant assumptions underlying any projections included in the statement under subsection (1)

6.6.2 It is important for users of GPFRs to be provided with details of the key aspects of governing legislation and regulation. However, there is a risk that such information will be over-detailed and undermine understandability. To address this risk it may therefore be appropriate to cross-reference other publicly available reports in the GPFRs.

6.6.3 It is also important to provide users with sufficient information on the underlying macro-economic policy and fiscal framework to allow them to interpret projected information. The challenge is to provide such information in a form that is not only understandable and relatively concise, but also verifiable. In broader reports on long-term fiscal sustainability the Australian, New Zealand and United Kingdom Governments have attempted to do this. Exhibit Nine gives examples of the approaches taken at the Commonwealth level in Australia and by the European Commission.

Exhibit Nine

Disclosing Information on Fiscal Frameworks: Australia and the European Commission

Australia

In its most recent Intergenerational Report, published in 2007, the Australian Commonwealth Government highlighted the key aspects of its macro-economic policy framework for fiscal policy and the "Charter of Budget Honesty" and medium–term fiscal strategy that both flow from that framework. The Charter requires the Government to frame its fiscal strategy having regard to fiscal risks, including (a) the maintenance of general government debt at prudent levels, (b) the state of the economic cycle, (c) the adequacy of national saving, (d) the stability and integrity of the tax system, and (e) the financial effect of policy decisions on future generations. Key aspects of the medium-term fiscal strategy include the maintenance of a balanced budget over the course of the economic cycle, with supplementary objectives of not increasing the overall tax burden from its 1996-1997 level and improving the Australian government net worth position over the medium to long-term. The macro-economic framework also includes an inflation target for inflation, based on the Consumer Price Index (CPI), to be 2-3 per cent per year on average over the course of the economic cycle.[9]

European Commission

The European Commission's assessment of debt sustainability is derived from the inter-temporal budget constraint. This constraint requires the current total liabilities of the government, i.e., the current public debt and the discounted value of future expenditure, to be covered by the discounted value of future government revenue. If current policies ensure that the inter-temporal budget constraint is respected, current policies are considered sustainable. Two sustainability gap indicators measure the size of required permanent budgetary adjustments that enables one of the following conditions to be met : (a) reaching a target of 60 % of GDP for the Maastricht debt in 2050 (the S1 indicator); and (b) fulfilling the inter-temporal budget constraint over an infinite horizon (the S2 indicator). The European Commission's (DGECFIN) publication, "Long-Term Sustainability of Public Finances" published in 2006 provided projections for the assessment of the budgetary implications of demographic change and the sustainability of public finances across the 25 EU Member States. Based on the projected expenditure trends, deficit and debt levels were projected over a 50-year horizon.

9 The Australian Commonwealth Government has subsequently updated its fiscal strategy.

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.

7 SPECIFIC METHODOLOGY ISSUES

7.1 Introduction

7.1.1 This section looks at (a) time horizons for long-term fiscal sustainability projections, (b) discount rates and the role of sensitivity analysis, (c) the reliability of assumptions and (d) the frequency of such projections.

7.2 Time Horizons for Projections and Their Rationale

7.2.1 Globally there is significant variation in the time horizons – the period to which projections relate – used by governments to develop projections and report on long-term fiscal sustainability. Exhibit Ten highlights the position for many of the national level reports identified in Section One. Both Australia and New Zealand currently use a 40-year reporting horizon, in Europe the time until the year 2050 is commonly used as the horizon, while in the US, most of the federal agencies involved in projections use a 75-year horizon. This is also the time horizon used for the information reported in the Financial Report of the US Government.

7.2.2 In some jurisdictions projections may be made over much longer time horizons than those publicly reported – both the UK and Sweden make projections to the end of this century, but only publicly report up to 2050. There is an obvious relationship between the robustness of assumptions and the time horizon – the further the time horizon is from the reporting date the more future events are captured, but the less robust and potentially less verifiable the assumptions become. Conversely, excessively short time horizons may increase the risk that events and modified trends just outside the reporting horizon, or beyond the economic cycle, might have a significant impact on reported information. In the US, in the Annual Trustee Reports for Social Security and Medicare, the latter risk has been partially addressed by adopting an infinite time horizon for certain projections.

7.2.3 It is important that the time horizons used for long-term fiscal sustainability projections are disclosed in the GPFRs, as well as the reason for any changes to those horizons already implemented or planned.

Exhibit Ten

Overview of Time Horizons in Long-Term Fiscal Sustainability Reports

Country	Title	Time Horizon
Australia	Intergenerational Report	40
Germany	Report on the Sustainability of Public Finance	Until 2050
Korea	Vision 2030	25
Netherlands	Aging and Sustainability of Dutch Public Finances	Until 2100 (with separate discussion to 2040)
New Zealand	New Zealand's Long-Term Fiscal Position	40
Norway	Long-Term Perspective for the Norwegian Economy	50
Sweden	Sweden's Economy (Annex to Budget)	Until 2050
Switzerland	Long-Term Sustainability of Public Finance in Switzerland	50
United Kingdom	Long-Term Public Finance Report	50
US: CBO	Long-Term Budget Outlook	75
US: GAO	Long-Term Fiscal Outlook	75
US: OMB	Long-Term Budget Outlook in Analytical Perspectives	75
US: Financial Report of US Government	Statement of Social Insurance	75
European Union Countries	Public Finances in the EMU	55

Source: OECD Fiscal Futures Project.

7.3 Discount rates

7.3.1 Assumptions and projections may involve the application of discount rates, although not all the indicators discussed in Section Four entail discounting. The responses to an informal questionnaire indicated a variety of approaches to determining discount rates, depending on the modeling approach. These approaches included (a) interest rates paid on public debt, and (b) the expected long-term rate of economic growth, either in nominal or real terms.

7.3.2 Accounting standards generally require that liabilities of a long-term nature are discounted to present value using a specified discount rate. For example, IPSAS 25, “Employee Benefits” requires the discount rate to be a rate that reflects the time value of money and permits entities to make a judgment as to whether the time value of money is best approximated by market yields on government bonds, high quality corporate bonds or by another financial instrument. IPSAS 26, “Impairment of Cash-Generating Assets” also includes requirements for the discount rate. These approaches reflect a view that undiscounted nominal amounts do not meet the qualitative characteristic of relevance.

7.3.3 The issue is whether, in order to enhance comparability, consideration should be given to specifying in the GPFRs a discount rate that represents best practice for discounting projections on long-term fiscal sustainability. The alternative would simply be to recommend disclosure of discount rates applied and their rationale. The Board believes that the latter approach would be acceptable at this stage given the developmental nature of this area and the range of professional groups involved.

7.4 Sensitivity Analysis

7.4.1 Demographic and economic projections are inherently uncertain. Public reports on long-term fiscal sustainability in many jurisdictions have therefore devoted considerable attention to (a) the impact of variations to base case projections and (b) assumptions about the drivers of economic growth. The most recent Australian IGR commented that “the projections in this report were built using assumptions to form a plausible central case. Significant uncertainties surround those assumptions and as a result, the projections in the report should not be treated as forecasts.”

7.4.2 In the context of the financial statements certain current IPSASs and Exposure Drafts (EDs) require or propose the disclosure of specified sensitivity information. For example, IPSAS 25 mirrors IAS 19 by including a requirement for disclosure of the effects of a 1% increase and 1% decrease in the assumed medical cost trend rates on components of revenue and the accumulated post-employment benefit obligation for medical costs. ED 39, “Financial Instruments: Disclosure” requires a sensitivity analysis for each type of market risk to which an entity is exposed at the end of the reporting period and the methods and assumptions used in preparing the sensitivity analysis.

7.4.3 As for demographic and economic assumptions the issue is how the results of sensitivity analyses are best presented in GPFRs. At this stage it is perhaps too early for the Board to be prescriptive in this area. However, its 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.

7.5 Reliability of Projections

7.5.1 It is unlikely that projections over a long-term period will match the actual outcome. This does not mean that projections are unreliable. Indeed the extent of the difference between the projections and actual outcomes will be largely dependent upon future government actions. The purpose of the projections, as noted earlier is to provide information on the extent of the fiscal challenges facing governments, the urgency with which these challenges need to be addressed and how these challenges are changing over time, so that decisions are well informed and governments can be held to account for the long-term impact of their decisions. The projections need to be reliable for that purpose. Therefore the projections need to be reasonable and realistic, rather than an accurate prediction of the future.

7.5.2 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. The SOSI uses assumptions from Annual Trustee Reports and adopts a 75-year time horizon. The GAO disclaimed an opinion on the SOSI in 2006, but in 2007 the GAO gave an opinion that the SOSI "presents fairly, in all material respects, the financial condition of the US government's social insurance programs." Further information on the sensitivity of assumptions is contained in supplemental information and the MD & A in the Financial Report, both of which are not currently subject to audit or assurance. The current wording of the unqualified audit opinion given on the SOSI for 2007 and 2008 is given in Exhibit Eleven overleaf.

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 disclaim an opinion on the 2006 Statement of Social Insurance and have not audited and do not express an opinion on the Statements of Social Insurance for 2005 and 2004, and on other information related to such statements that is included in the accompanying *2008 Financial Report*. As discussed in Note 23 to the consolidated financial statements, the Statement of Social Insurance presents the actuarial present value of the federal government's estimated future revenue to be received from or on behalf of participants and estimated future expenditures to be paid to or on behalf of participants, based on benefit formulas in current law and using a projection period sufficient to illustrate the long-term sustainability of the social insurance programs. In preparing the Statement of Social Insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statement. However, because of the large number of factors that affect the Statement of Social Insurance and the fact that such assumptions are inherently subject to substantial uncertainty (arising from the likelihood of future changes in general economic, regulatory, and market conditions, as well as other more specific future events, significant uncertainties, and contingencies), there will be differences between the estimates in the Statement of Social Insurance and the actual results, and those differences may be material. The Supplemental Information section of the *2008 Financial Report* includes unaudited information concerning how changes in various assumptions would change the present value of future estimated expenditures in excess of future estimated revenue. As discussed in that section, Medicare projections are very sensitive to changes in the health care cost growth assumption.

7.5.3 In its "Code of Practice on Fiscal Sustainability" the IMF states that "independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions and that a national statistical body should be provided with the institutional independence to verify the quality of fiscal data." Both Eurostat and the Canadian Province of Ontario use peer review processes. This approach is consistent with guidance issued by the CICA on public performance reporting, which states that it is good practice for the reports to disclose the basis on which those responsible for the preparing the report have confidence in the reliability of the information presented.

7.5.4 The IPSASB is of the view that the need for, level of and extent of assurance is a matter for preparers to form a judgment on in conjunction with their auditors. In forming this judgment it is important that entities take into account user needs from an accountability perspective. Users need to be presented with prospective information in an understandable format so they can assess the extent of the fiscal challenge facing governments. Due to the inherent uncertainty in long-term projections it is important that entities succinctly disclose the steps that have been taken to ensure that key assumptions underpinning projections are realistic and reliable and, as discussed in Section Five, that these assumptions are consistent.

7.6 Frequency of Reporting

7.6.1 Publication of GPFSs is, at a minimum, on an annual cycle. As for time horizons, the frequency of long-term fiscal sustainability reporting varies. Australia is required by legislation to publish Intergenerational Reports at least every five years. The legislative requirement in New Zealand is for a statement on New Zealand's long-term fiscal position to be published every four years. Switzerland also reports publicly every four years. Other governments report annually and may make projections more frequently e.g., Sweden. Exhibit Twelve gives the frequency of reporting for the jurisdictions identified in Section One of the paper.

Exhibit Twelve

Overview of Reporting Frequency in Certain Jurisdictions

Country	**Title**	**Frequency**
Australia	Intergenerational Report	Every 5 yrs
Denmark	A Sustainable Future	Every 5 yrs
Germany	Report on the Sustainability of Public Finance	Every 4 yrs
Korea	Vision 2030	Ad Hoc
Netherlands	Aging and Sustainability of Dutch Public Finances	Ad Hoc
New Zealand	New Zealand’s Long-term Fiscal Position	Every 4 yrs
Norway	Long-Term Perspective for the Norwegian Economy	Annually
Sweden	Sweden’s Economy (Annex to Budget)	Annually
Switzerland	Long-Term Sustainability of Public Finances in Switzerland	Every 4 yrs
United Kingdom	Long-Term Public Finance Report	Annually (not since 2006)
US: CBO	Long-Term Budget Outlook	Every 2 yrs
US: GAO	Long-Term Fiscal Outlook	3 times/yr
US: OMB	Long-Term Budget Outlook in Analytical Perspectives	Annually
US: Financial Report of US Government	Statements of Social Insurance	Annually
European Union Countries	Public Finances in the EMU	Annually

Source: OECD Fiscal Futures Project.

7.6.2 Reporting frequencies for publicly available reports outside the GPFRs are not within the scope of this Consultation Paper. However, where projections are made considerably earlier than the reporting date for the GPFRs, it may be questionable whether such projections meet the qualitative characteristic of timeliness. At a minimum, it is recommended that the date on which projections were made be disclosed.

7.6.3 A more rigorous approach would be to endorse a good practice benchmark that long-term fiscal sustainability projections in the GPFRs should have been made within a predetermined period before the reporting date for the GPFSs. For items subject to revaluation in GPFSs, intervals exceeding five years are not permitted. In the IPSASB's view there are risks to the relevance of long-term fiscal sustainability information disclosed in GPFRs if it has not been prepared and updated within five years of the reporting date.

Preliminary View Six

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

- Time horizons for the 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.

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.

International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1(212) 286-9570 www.ifac.org