

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: New York, USA

Meeting Date: December 3–6, 2012

Agenda Item 8

For:

☐ Approval

☒ Discussion

☐ Information

Reporting on the Long-Term Sustainability of an Entity's Finances

Objective(s) of Agenda Item

1. The objectives of this session are to:
 - (a) **Obtain directions** from the IPSASB on various issues; and
 - (b) **Obtain directions** from the IPSASB on the proposed draft RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*.

Material(s) Presented

Agenda Item 8.1	Issues Paper
Agenda Item 8.2	Draft RPG 1, <i>Reporting on the Long-Term Sustainability of an Entity's Finances</i> Marked-Up Version
Agenda Item 8.3	Draft RPG 1, <i>Reporting on the Long-Term Sustainability of an Entity's Finances</i> Clean Version

Background

2. The IPSASB considered a detailed review of the responses to ED 46 as its September 2012 meeting. The draft minutes from this meeting are in the Appendix.

Action(s) Requested

3. The IPSASB is asked to consider the "Matters for Consideration" in Agenda Paper 8.1 and provide directions to enable further development of RPG 1.

Appendix: Extract from the draft September 2012 Meeting Minutes

Reporting on the Long-term Sustainability of Public Finances (Agenda Item 5)

Review Responses to ED 46

FASAB Presentation

The Chairman welcomed Tom Allen, Chairman of the US Federal Accounting Standards Advisory Board (FASAB), to outline the work of the FASAB on long-term fiscal sustainability reporting (LTFS) reporting for the US Federal government. The FASAB has issued a standard, Statement of Federal Financial Accounting Standards (SFFAS) 36: *Comprehensive Long-Term Projections for the U.S. Government* that requires the consolidated financial report of the US federal government to present a statement showing the present value of projected receipts and non-interest spending under current policy without change for all the activities of the federal government. This standard requires full implementation for reporting periods beginning after September 30, 2012. Mr Allen highlighted a particular disclosure that is required which illustrates the likely impact of delaying action in meeting the fiscal gap. He considered that this disclosure demonstrates the level of changes required to maintain the government's debt at the same size (in relation to the economy) as it was at the beginning of the projection period.

Review of Responses

The IPSASB had discussed a detailed review of responses to Exposure Draft (ED) 46, Proposed Recommended Practice Guideline (RPG), *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* (hereafter LTFS Report) prepared by Staff. ED 46 was issued in October 2011 with comments requested by February 29, 2012. The IPSASB had received 38 responses.

Continue to Develop ED 46 into Final Guidance (Question 1)

The IPSASB agreed that staff should continue to develop ED 46 into final guidance.

Specific Matter for Comment (SMC) 1: Characteristic (c) Wide Decision-Making Powers over Service Delivery Levels (Question 2)

The IPSASB discussed characteristic "(c) Wide decision-making powers over service delivery levels", which is one of the characteristics which may indicate that an entity has users for LTFS information. The IPSASB directed that this wording should be revised to:

"The power and ability to determine the nature, level and method of service delivery including the introduction of new services."

SMC 2: Suggestions to Change the Name of the Vulnerability Dimension (Question 3)

Several respondents suggested that the name of the vulnerability dimension should be changed. The IPSASB agreed that this dimension should continue to be named vulnerability, subject to the point below relating to amending the definition of vulnerability.

SMC 2: Definition of the Vulnerability Dimension (Question 4)

Several respondents had comments on the definition of vulnerability. A member commented that fiscal capacity deals with debt levels, service capacity deals with service delivery levels and so this dimension

should deal with revenue levels and proposed that this dimension could be renamed “revenue-raising capacity.” Another member considered that this dimension should include two aspects: (a) to what extent is the entity affected by changes in the environment, and (b) the entity’s ability to react to that. Another member considered that this dimension relates to the degree of dependence on another body and perhaps could be called “capacity to influence revenues.” The IPSASB directed staff to amend the definition to reflect the above discussion. It was noted that the dimension was based on a definition in the Canadian Public Sector Accounting Board’s literature and that further consideration of that definition may help with re-drafting.

SMC 2: Service Capacity (Question 5)

Some respondents commented on the meaning of “volume and quality” and “current recipients” in the definition of service capacity. A member suggested that the definition should be amended to refer to services “provided to recipients.” Another member suggested that an entity should disclose how the entity has modelled the volume and quality of a program.

SMC 2: Current and Future Policy (Question 6)

Several respondents had comments on what is meant by current and future policy. A member commented that the way an entity treats fiscal drag can be a big issue and the entity may not necessarily have a policy of fiscal indexation. The way paragraph 40 is currently worded it is quite black and white that policy should be kept constant. This member considers that a better projection of revenue will take fiscal drag into account and suggested that the wording in paragraph 40 is softened. This would allow entities to move from a current policy setting where appropriate. The proposed RPG should have a recommended disclosure on this point.

The IPSASB did not agree that the proposed RPG should refer to “known future policy” when discussing policies that are known to be changing. Instead the IPSASB suggested that “known events with decisions that have been made” is the appropriate phrase to use.

SMC 2: Qualitative Characteristics and Materiality (Question 7)

Several respondents suggested that the proposed RPG refers to the qualitative characteristics of financial reporting (QCs) and materiality. Staff proposed that a new sub-section is added to describe (a) the elements of a LTFS Report, (b) describe how it can provide a faithful representation on an entity’s fiscal sustainability, (c) explain that it should meet the QCs, and (d) explain that only material information should be included. A member considered that any guidance on QCs could be considered to be an interpretation of them and cautioned against including guidance separate section on the QCs. Another member considered that there should not be a reference to what should be included in a LTFS Report. Another member considered that it may be useful if the proposed RPG has a stated objective as that may help preparers consider what a faithful representation is when there is such a broad range of LTFS reporting. Another member agreed with this point.

SMC 2: Paragraph 27 (Question 8)

Some respondents commented on paragraph 27. A member expressed a view that a LTFS Report is trying to “faithfully represent” a set of assumptions and that this is explained in paragraphs 50 and 51. This member was concerned with the comments from respondents and considered that paragraph 27 should explain that LTFS information should be useful and that “faithfully represented” should be replaced

with “useful.” Staff explained that “faithful representation” in this paragraph was trying to explain that if a LTFS Report includes all three dimensions then it is more likely to be complete and useful.

The IPSASB agreed that this part of the proposed RPG should reflect: (a) the objectives of financial reporting and user needs, (b) an explanation of faithful representation including that LTFS information is more likely to be useful if it is complete, and (c) the necessity of a narrative explanation. A member also suggested that where a preparer departs from aspects of the proposed RPG, they should ensure that the LTFS Report still achieves a fair presentation.

SMC 3: Disclosures (Question 9)

Several respondents commented on disclosures. The IPSASB agreed with the staff's proposed changes to the sub-section on Disclosure of Principles and Methodologies: (a) separate the recommended disclosures from the related explanation, (b) include an overarching recommendation that disclosures should be sufficient to meet users' needs, (c) include recommended disclosure of changes in assumptions and methodologies from the previous reporting period, and (d) include recommended disclosure of the reasons for changes in the dimensions from the previous reporting period.

SMC 3: Relationship between Projections, Budgets and Forecasts (Question 10)

Several respondents suggested that the relationship between projections, budgets and forecasts should be clarified. The IPSASB did not agree with the staff's proposed explanation of this relationship and directed staff to consider international guidance, which defines these terms, such as that issued by the OECD.

SMC 3: Long-Term Budgets and Forecasts (Question 11)

Staff asked the IPSASB to clarify whether or not 10-year budgets or forecasts, such as the Long Term Plans presented by local government entities in New Zealand, are within the scope of the proposed RPG. A member considered that budgets should not be within the scope of the proposed RPG and that it needs to be made clear that only projections are within the scope. The proposed RPG should include the notion of substance over form. In other words, the term projection is described or defined (see Question 10 above) and if a budget or forecast meets that definition, then it can be used. Another member was concerned that the inclusion of references to budgets could lead to projections being based on political promises rather than current policy. Another member suggested that the proposed RPG needs to define “long-term.” Staff responded that the time horizon of long-term fiscal sustainability reporting varies and that, while it is feasible to provide factors that need to be taken into account in determining a time horizon, providing bright lines is not appropriate.

Other Issues: To which Entity should the Proposed RPG Apply? (Question 12)

Several respondents commented on the level of government and nature of the entity to which the proposed RPG should apply. A member commented that the problem is that the nature of entities varies and a large local authority could be bigger than a small province or state. Therefore specifying the tier of government or type of entity to which the proposed RPG should apply is not feasible. Another member commented that the guidance on the type of judgments required will be similar irrespective of the size of the entity. The proposed RPG deliberately does not go into detail because of this. Another member commented that many readers of ED 46 consider that it applies to whole of governments only. A member commented that many entities will be able to use information given in other existing reports.

The IPSASB directed the staff to consider whether certain examples should be developed.

Other Issues: Position of LTFS Report Relative to GPFSs (Question 13)

Several respondents commented on the relationship of a LTFS Report to the GPFSs and suggested that this issue should be clarified. The IPSASB agreed that the following wording should be added to paragraph 17:

“Long-term fiscal sustainability information may be published as a separate report or as part of another report. It may be published at the same time as the GPFSs or at a different time.”

Other Issues: Audit and assurance (Question 14)

Several respondents expressed a range of views as to whether or not a LTFS Report could or should be audited or otherwise be subjected to assurance. The IPSASB agreed that paragraph 51 should be revised, as follows:

“There are a variety of approaches that an entity may take to provide assurance on long-term fiscal sustainability information.”

The IPSASB also agreed that staff should contact the International Organisation of Supreme Audit Institutions (INTOSAI) because they are doing some work in this area. A member commented that in addition to International Standard on Assurance Engagements (ISAE) 3000, *Proposed International Standard on Assurance Engagements*, the IAASB has a standard on prospective information, ISAE 3400, *The Examination of Prospective Financial Information*.

Other Issues: Respondents who do not Support ED 46

A small number of respondents expressed strong opposition to ED 46. A member commented that this is a jurisdictional issue and that it would help if the proposed RPG explained clearly that it is not concerned with budgets and policy decisions. Rather the purpose of the proposed RPG is to get additional information for decision-making and accountability purposes. These issues should be explained in the proposed RPG and BC5 may need consequential amendments.

Other Issues: Definitions (Question 15)

Several respondents suggested that the definitions of indicators need to be clarified, e.g., is the definition of net debt referring to the IPSASB definition of liabilities or the GFS definition of liabilities. The IPSASB directed the staff to prepare an issues paper to consider at the December 2012 meeting on how the definitions of indicators might be clarified.

The IPSASB agreed that the proposed RPG should include a glossary of the relevant terms that are already defined in IPSASs, such as “cash equivalents.”, rather than simply referring to usage elsewhere in IPSASs. If this glossary is several pages long then this decision may need to be revisited.

The IPSASB agreed that terms used in the proposed RPG need to be checked for consistency against similar terms in the Conceptual Framework project.

Next Steps

The IPSASB directed the staff to prepare an issues paper to consider at the December 2012 IPSASB meeting on whether or not the proposed guidance should be an RPG or a standard.

The IPSASB agreed that it would be helpful if the LTFS Task Force is re-engaged for the development of the draft RPG.

At the December 2012 meeting, the IPSASB will also consider a draft RPG (acknowledging that the status of the guidance will be considered separately) revised for the decisions made above.

Issues Relating to

Draft RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*

Objectives of this Session

1. The objectives of this session are to:
 - (a) Obtain directions from the IPSASB on the issues set out below; and
 - (b) Obtain directions from the IPSASB on the proposed draft RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*.
2. A marked-up version of the draft RPG is in Agenda Paper 8.2 and the clean version is in Agenda Paper 8.3.

Structure of this Issues Paper

3. The paper is divided into the following sections:
 - (a) "Vulnerability" dimension;
 - (b) Definition of "projection" and relationship to budgets and forecasts;
 - (c) Structure of the draft RPG;
 - (d) Indicators and dimensions of LTFS;
 - (e) Review of draft RPG;
 - (f) Voluntary guidance versus authoritative standard (the Alternative View); and
 - (g) Assurance issues.

"Vulnerability" Dimension

4. Several respondents had comments on the name of the vulnerability dimension and the definition. At its September 2012 meeting, the IPSASB directed staff to amend the definition to clarify its meaning.
5. ED 46 defines vulnerability as follows:

"Vulnerability" is (a) the extent to which an entity is fiscally dependent upon funding sources outside its control, principally inter-governmental transfers, and (b) the extent to which an entity has powers to vary existing taxation levels or other revenue sources and powers to create new sources of taxation and revenue."
6. This is derived from the definition of vulnerability in Statement of Recommended Practice 4 (SORP-4), *Indicators of Financial Condition* issued by the Canadian Public Sector Accounting Board. The definition in SORP-4 is as follows:

"Vulnerability" is the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet

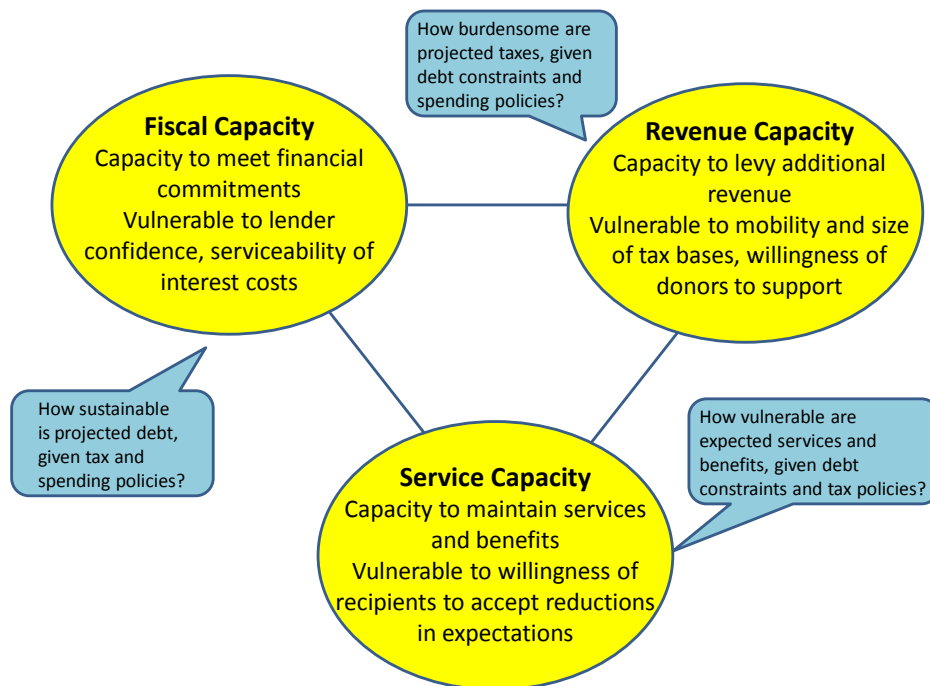
its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.”

7. A member of the LTFS Task Force considers that the concept of vulnerability applies to each of the dimensions and does not relate solely to revenue. A public sector entity is not only vulnerable from its dependency on revenue streams, but is also vulnerable to market expectations and economic conditions, and public demand for services. He suggests that this dimension be renamed “revenue capacity” and the definition amended, as follows:

“**Revenue capacity** is (a) the ability of the entity to vary existing taxation levels or other revenue sources and to introduce new sources of taxation or other revenue and (b) the entity’s dependency upon funding sources outside its control, over the period of the projections, which finance the entity’s policies for service delivery to recipients and entitlements for beneficiaries, and remain within debt constraints.”

8. The relationship between the dimensions is illustrated in Diagram 1 below.

Diagram 1: Relationship between the Dimensions of LTFS



9. Staff agrees with this suggestion and has reflected this change in paragraphs 34–36 of the draft RPG.

Matter(s) for Consideration

1. The IPSASB is asked to confirm:
 - (a) That the “vulnerability” dimension should be changed to “revenue capacity”; and
 - (b) That the definition should be amended as set out in paragraph 7.

Definition of “Projection” and Relationship to Budgets and Forecasts

10. Several respondents suggested that the relationship between projections, budgets and forecasts should be clarified. At the September 2012 meeting the staff proposed an explanation of this relationship, as follows:

“Projections are not budgets or forecasts [from paragraph 50]. Budgets or forecasts are estimates of inflows and outflows for a limited time period such as 3 years. Projections are based on assumptions about an entity's future inflows and outflows using current policies and usually involve the use of models to represent potential outcomes in future time periods.”
11. The IPSASB did not agree with the suggestion and directed staff to consider how these terms have been defined or described in international guidance, such as that produced by the Organisation for Economic Co-operation and Development (OECD), which defines these terms.
12. Table 1 below sets out the definition of projection from the OECD, International Auditing and Assurance Standards Board (IAASB) and Kohler's Dictionary for Accountants.

Table 1: Definitions of Projection

Definition	Source
<p>Projection</p> <p>This term is used in two connected senses.</p> <p>(1) In relation to a time series it means a future value calculated according to predetermined changes in the assumptions of the environment.</p> <p>(2) More recently, it has been used in probability theory to denote the conditional expectation of a variate.</p> <p>Since a regression equation gives the expectation of the dependent variate conditional upon values of the predicted (“independent”) variates and such equations are used for forecasting or prediction, the usages are connected.</p>	OECD
<p>Projection—Prospective financial information prepared on the basis of:</p> <p>(a) Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or</p> <p>(b) A mixture of best-estimate and hypothetical assumptions.</p> <p>Prospective financial information—Financial information based on assumptions about events that may occur in the future and possible actions by an entity. Prospective financial information can be in the form of a forecast, a projection or a combination of both. (see <i>Forecast</i> and <i>Projection</i>)</p> <p>Forecast—Prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).</p>	IAASB
<p>Projections <i>extrapolations, q.v.</i> Developments or portrayals of possible future states as in the scenarios of a futurology exercise or feasibility or impact statement study.</p>	Kohler's Dictionary for Accountants

13. These definitions appear to relate to specific contexts; the OECD's definition to methodology, the IAASB's definition to management actions related to prospective financial statements. The Kohler's Dictionary definition is very general. Staff considers that the key characteristics of a projection is that it:

- (a) Is prospective financial information;
- (b) Should be based on current policy (as that term is explained in paragraphs 40–42A of the draft RPG); and
- (c) Should be based on assumptions about economic and other conditions, e.g., demographic conditions.

14. Therefore, staff proposes the following definition for projection:

“A **projection** is prospective financial information prepared on the basis of supportable assumptions about the entity's policies, future economic and other conditions.”

15. The proposed definition uses the term “supportable assumptions about the entity's policies” rather than “current policies” because reference to “current policies” can be misleading. The term “current policies” as used in paragraphs 40-42A of the draft RPG suggest that an entity should not use current policies in certain instances. Hence, the definition uses the term “supportable assumptions about the entity's policies”.
16. The definition of projection leads to consequential amendments to the definitions of fiscal capacity and service capacity so that the wording is consistent. Further amendments also have to be made so that the wording of the three dimensions is consistent. The definition of revenue capacity has already been considered in paragraph 7 above, so the revised definitions for the other two dimensions are as follows:

Fiscal capacity is the ability of the entity to meet financial commitments, such as the servicing and repayment of debt, ~~and liabilities to creditors, on a continuing basis over the period of the projections, without increasing the levels of taxation using the entity's policies for service delivery to recipients and entitlements for beneficiaries, and for raising taxes and other revenue.~~

Service capacity is ~~the ability of extent to which (a) the entity can to maintain the volume and quality of services at the volume and quality provided to current recipients at the reporting date and (b) meet obligations related to entitlement programs for current and future beneficiaries, over the period of the projections, using the entity's policies for raising taxes and other revenue, and remain within debt constraints.~~

17. A concern was expressed at the September 2012 meeting, that budgets should not be within the scope of the draft RPG because in some jurisdictions budgets are based on political promises rather than current policy. The IPSASB suggested that the draft RPG needs to be clear that only projections are within its scope. However, if a budget or forecast meets that definition, then it can be used. This point has been included as the last sentence in paragraph 16E, as follows:

“Where an entity has a budget or forecast that meets the definition of a projection, this information can be used for the relevant time period or periods.”

Matter(s) for Consideration

2. The IPSASB is asked to confirm:
- (a) That the proposed definition of projection set out in paragraph 14 is appropriate;
 - (b) That the consequential changes to the definitions of fiscal capacity and service capacity set out in paragraph 16 are appropriate; and
 - (c) That the proposed sentence relating to budgets set out in paragraph 17 is appropriate.

Structure of the Draft RPG

18. Staff proposes to alter the structure of the draft RPG. The key changes are to introduce two new sections:
- (a) Key principles of reporting long-term fiscal sustainability information (see paragraphs 16A–16E of the draft RPG); and
 - (b) Indicators (see paragraphs 26B–26E of the draft RPG).
19. Table 2 below contrasts the structure of ED 46 with the proposed structure of the RPG and explains why the changes are proposed.

Table 2: Structure of the Draft RPG

ED 46 Structure	Proposed Structure	Comment
Objective	Objective	–
Status and Scope	Status and Scope	–
Definitions	Definitions	–
Reporting Boundary	Determining Whether to Report on Long-Term Fiscal Sustainability Information	Reversed the order of these two sections. An entity will usually determine first whether to report LTFS information and, if so, then it will determine the reporting boundary.
Determining Whether to Report on Long-Term Fiscal Sustainability	Reporting Boundary	
–	Key Principles of Reporting Long-Term Fiscal Sustainability Information	<p>New section to:</p> <ul style="list-style-type: none"> • Explain that the report should provide an overall picture of the entity. • Explain that narrative discussion will be necessary to put the projections into context (taken from paragraph 27) and to explain the dimensions of LTFS. • Explain materiality. • Explain that a LTFS Report can be published separately from, or with, the

ED 46 Structure	Proposed Structure	Comment
		<p>GPFSs.</p> <ul style="list-style-type: none"> Explain that an entity can use projections and indicators prepared by other entities (taken from paragraph 18). That if it does so, it should disclose this fact. And where an entity has a budget or forecast that meets the definition of a projection, it can use this information.
Presenting Projections of Prospective Inflows and Outflows	Presenting Projections of Prospective Inflows and Outflows	–
–	Indicators	New section—see paragraphs 24–26 for explanation.
Addressing the Dimensions of Fiscal Sustainability	Addressing the Dimensions of <u>Long-Term</u> Fiscal Sustainability	Wording change of heading.
Disclosure of Principles and Methodologies	Disclosure of Principles and Methodologies	Wording change of heading.

20. Staff considers that the proposed structure represents a logical flow.

Matter(s) for Consideration

- The IPSASB is asked to confirm that the proposed structure is appropriate or provide directions for further modification.

Indicators and Dimensions of LTFS

Indicators Based on IPSAS Requirements or GFS Reporting Guidelines

- Several respondents suggested that the definitions of indicators need to be clarified. This issue arises because some of the examples in the draft RPG refer to well-known GFS indicators, such as “net debt.” Some respondents queried whether the definition of net debt refers to the IPSASB definition of liabilities or the GFS definition of liabilities. At its September 2012 meeting, the IPSASB directed staff to consider how the definitions of indicators might be clarified.
- This issue relates solely to the examples given in the text of the draft RPG. It does not relate to the Glossary of Indicators because the Glossary states the source of each indicator.
- Because of the predominance of the use of GFS indicators when referring to LTFS information, staff considers that the draft RPG should not recommend that indicators should be calculated using amounts based on IPSAS requirements. However, the draft RPG could explain this issue and recommend disclosure of the basis used to calculate the indicators where they are based on amounts derived from sources other than IPSASs. The paragraph could be worded as follows:

“Indicators may be calculated using amounts recognized in accordance with IPSAS requirements, Government Finance Statistics reporting guidelines or other requirements such as those specified in legislation. Where an entity uses indicators that are based on definitions derived from non-IPSAS based sources, it should disclose this fact and, where possible, the estimated impact on the projections and, consequently, on the indicators.”

Matter(s) for Consideration

4. The IPSASB is asked to confirm whether the proposed new paragraph on indicators set out in paragraph 23 is appropriate.

New Section on “Indicators”

24. Staff is proposing a new section (paragraphs 26B–26E) dealing specifically with indicators. This new section is located immediately after the section on “Presenting Projections of Prospective Inflows and Outflows” and before the section on “Addressing the Dimensions of Long-Term Fiscal Sustainability”. The reason for this placement is that staff considers indicators can relate to LTFS information other than just the dimensions of LTFS.
25. The new section explains how an entity should choose indicators. The proposed text is based on Preliminary View 4 of the Consultation Paper which stated:

“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).”
26. The new section includes the proposed paragraph relating to the disclosure of the basis used to calculate indicators as discussed in paragraph 23 above. It also recommends disclosure of significant changes in the measures of indicators compared with those of the previous reporting period and changes of the indicators chosen to report LTFS information.

Matter(s) for Consideration

5. The IPSASB is asked to confirm whether the proposal to insert a new section (paragraphs 26B–26E) dealing specifically with indicators is appropriate.

Review of Draft RPG

27. At its meeting in September 2012, the IPSASB agreed to consider a draft RPG at this meeting. Agenda Paper 8.2 presents the marked-up version of the draft RPG. The draft RPG includes proposed amendments to address both the IPSASB’s and respondents’ concerns. The draft RPG does not include a revised Basis for Conclusions—this will be presented at the March 2013 meeting.
28. Also at the September meeting, the IPSASB agreed to amend the structure of the paragraphs of the draft RPG to separate the recommended disclosures from the related explanation. This has been done. The Appendix to this Agenda Paper lists the paragraphs in ED 46 and indicates the proposed changes.

Matter(s) for Consideration

6. The IPSASB is asked to conduct a page by page review of the draft RPG in Agenda Paper 8.2 and provide feedback on the proposed amendments.

Voluntary Guidance versus Authoritative Standard (the Alternative View)

29. At the September 2012 meeting, the IPSASB directed the staff to consider whether or not the proposed guidance should be a voluntary RPG or an authoritative standard.
30. ED 46 was issued as a proposed RPG because, at this stage in the development of reporting LTFS information, the IPSASB considers it would be premature to issue an authoritative pronouncement and also because the IPSASB wants to encourage innovative reporting. ED 46 included an Alternative View which proposes that entities should be required to report long-term fiscal sustainability information within general purpose financial statements, including note disclosures, or in a separate general purpose financial report.
31. 17 respondents (2, 3, 4, 6, 7, 9, 10, 12, 19, 23, 26, 30, 31, 32, 35, 37 and 38) support the voluntary application of this guidance. Another 15 respondents (11, 13, 14, 16, 17, 18, 20, 22, 24, 25, 27, 28, 29, 33 and 34) did not explicitly mention whether or not they support the guidance being of a voluntary nature.
32. The other six respondents had differing views. Two respondents (8 and 36) agree with the Alternative View in ED 46 that the proposals should be required to be applied. In addition, respondent 1 considers that the proposals should be required to be applied if LTFS Reporting is considered to be “similar to the “going concern” criteria in IFRS for commercial entities.” Respondent 8 clearly agrees with the Alternative View in the Annex to its response but this statement is inconsistent with the point in the accompanying letter that issuing a guideline “seems a very practical way to push ahead in this area.”
33. Two respondents (5 and 15) consider that the proposals in ED 46 should be required to be applied for some entities. Respondent 5 supports an authoritative standard for the general government sector (GGS) or the highest consolidated level of an entity, and respondent 15 supports an authoritative standard for what it terms “sovereign entities.” A slightly different view is taken by respondent 21 who supports the issuance of an authoritative standard setting out broad principles together with a voluntary best practice guideline.
34. The main arguments for issuing voluntary guidance are that:
- (a) Reporting LTFS information is an area where practice is still developing and the IPSASB wishes to encourage entities to adopt best practice;
 - (b) It does not discourage entities from applying IPSASs because of the lack of LTFS information or where LTFS information is reported but not on an annual basis; and
 - (c) It allows for more flexibility than a standard which will help entities in jurisdictions that already have requirements for reporting LTFS information that differ significantly from the guidance in the RPG.
35. The main arguments for issuing an authoritative standard are that:

- (a) Reporting LTFS information is necessary to meet the objectives of general purpose financial reporting;
 - (b) It will enhance comparability of LTFS information between entities, and enhance consistency over time;
 - (c) Without an authoritative standard, many public sector entities will not report LTFS information and therefore user needs will go unmet; and
 - (d) Reporting LTFS information has moved beyond an early stage of development and public sector entities that issue GPFs in accordance with accrual IPSASs have demonstrated the capacity to report LTFS information.
36. Staff acknowledges the logic of the view that, if LTFS information is necessary to meet user needs and therefore the objectives of financial reporting, the pronouncement should be authoritative. However, on balance, Staff is of the view that the considerations in paragraph 34 are persuasive. Staff also has concerns that if an authoritative standard is issued, non-compliance would prevent entities that meet the requirements in IPSASs applicable to the financial statements, from asserting compliance with IPSASs, unless a specific waiver is included. Issuing non-authoritative guidance also takes into account the views of respondents. Therefore, staff considers that the proposal for ED 46 to be issued as non-authoritative guidance in the form of a RPG is appropriate.

Matter(s) for Consideration

7. The IPSASB is asked to confirm its decision to continue to develop ED 46 into a RPG.

Assurance Issues

37. Several respondents expressed a range of views as to whether or not LTFS information could or should be audited or otherwise be subjected to assurance. At its September meeting, the IPSASB tentatively agreed to revise paragraph 51 as follows:

~~“There are a variety of approaches that entities-an entity may take to provide assurance on long-term fiscal sustainability information enhance the reasonableness and realism of projections. These include formal assurance by an external auditor and peer review by independent experts. It is good practice to disclose the steps that have been taken to ensure that key assumptions underpinning projections are realistic and that such assumptions are internally consistent.”~~

38. Staff is proposing to delete this paragraph and replace it with a paragraph that clearly states that the draft RPG does not provide guidance on the level of assurance (if any) to which LTFS information should be subjected. Staff has placed this paragraph in the “Status and Scope” section of the draft RPG to give it higher visibility (paragraph 51 is the last paragraph in the draft RPG).
39. In the meantime, there have been other developments on the assurance issue. The International Auditing and Assurance Standards Board (IAASB) has an IAASB–IASB Liaison working group that helps the IAASB monitor the development of IASB projects to identify financial reporting developments that may affect the pronouncements of the IAASB or create a need for new auditing pronouncements. The IPSASB staff are now working with the IAASB staff to consider how this existing working group could be expanded to take on a similar role for the IPSASB. On that basis it is intended that the additional responses received on this assurance issue, together with the draft RPG, will be sent to the working group for review.

40. This issue of assurance has also been raised by respondents to ED 47, *Financial Statement Discussion and Analysis* and it is intended that this draft guidance will also be reviewed by the IAASB's working group. It is anticipated that on an ongoing basis the terms of reference of the working group will be modified to add liaison with the IPSASB or that a separate IAASB–IPSASB Liaison working group will be established to address such assurance issues.
41. Staff expects that the results of the review will be available before the March 2013 meeting and therefore any implications on the draft RPG will be considered at that meeting.

Appendix: Proposed Changes from ED 46 to Draft RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*

The table below lists the paragraphs in ED 46 and indicates the proposed changes. Text in [] refers to the respondent that commented on this paragraph and to which SMC (or "Other Comments" "OC") the comment was attached, using Agenda Paper 5.2 from the September 2012 meeting. For example [R10.3 OC] refers to respondent 10, comment 3 in the Other Comments section of Agenda Paper 5.2.

Paragraph	Comment
Objective	
1	Editorial changes to refer to LTFS consistently. This change has been made throughout the draft RPG. [R10.3 OC]
1A	Was paragraph 8. Moved because it is an introductory paragraph and does not relate to the Definitions section. Editorial changes.
1B	Was paragraph 9. Moved because it is an introductory paragraph and does not relate to the Definitions section. Editorial changes.
Status and Scope	
2	New first sentence to provide context for the second sentence. Third sentence moved to paragraph 2A. Fourth sentence deleted because compliance with the draft RPG is covered in new paragraph 6A.
2A	First sentence: Moved from paragraph 2 and amended to be more concise. Second sentence: New sentence to explicitly state that compliance with the draft RPG is not required in order for an entity to assert compliance with IPSASs applicable to the financial statements. This sentence is consistent with paragraph 13A of the draft IPSAS on <i>Financial Statement Discussion and Analysis</i> (draft FSDA IPSAS), which distinguishes between IPSASs applicable to the financial statements and the IPSAS applicable to FSDA (see Agenda Paper 5.2).
3	Moved last sentence to become first sentence to improve the flow of this paragraph.
4	Editorial changes, including amending the text so that it refers to "an entity should" consistently. This change has been made through-out the draft RPG. [R10.2 OC].
5	Second sentence deleted because it is unnecessary because it directs readers to a subsequent section in the draft RPG.
6	Editorial changes.
6A	Inserted to explain how an entity discloses compliance with the draft RPG. Based on IPSAS 1.28. [R10.1 OC]
6B	Inserted to make it clear that the draft RPG does not provide guidance on the level of

Paragraph	Comment
	assurance to which LTFS information should be subjected, if any. This sentence is consistent with paragraph 5A of the draft FSDA IPSAS.
Definitions	
7	First sentence: editorial changes to make consistent with wording used in IPSASs. Definitions of the dimensions have been added whereas previously they were just in the text of the draft RPG. A definition of projection has been inserted.
8	Moved to paragraph 1A.
9	Moved to paragraph 1B.
<u>Determining Whether to Report on Long-Term Fiscal Sustainability Information</u>	
10	Was paragraph 14. Editorial changes including deleting the word “initially” from the assessment of whether there are users for LTFS information. [R35.2 SMC 1]
11	Was paragraph 15. Editorial changes. Sub-paragraph (c) has been amended in accordance with directions from the September 2012 meeting.
12	Was paragraph 16. Editorial changes.
Reporting Boundary	
13	Was paragraph 10. Reworded so that it refers to the reporting boundary for LTFS information before referring to the reporting boundary for the financial statements.
14	Was paragraph 11. Editorial changes.
15	Was paragraph 12. Editorial changes.
16	Was paragraph 13. Deleted this paragraph because it is similar to paragraph 15.
<u>Key Principles of Reporting Long-Term Fiscal Sustainability Information</u>	
16A	Inserted so that the draft RPG explicitly states that LTFS information should enable users to form an overall assessment of the LTFS of the entity and the risks it faces. [R21.3 SMC 3]
16B	Inserted so that the draft RPG explicitly refers to the objectives of financial reporting and the QCs, in accordance with directions from the September 2012 meeting.
16C	Inserted to explain that only material items should be included when reporting LTFS information. Based on IPSAS 1.47. [R12.7 SMC 2]
16D	Inserted to explain that LTFS information may be published as a separate report or as part of another report and that it may be published at the same time as the GPFs or at a different time, in accordance with directions from the September 2012 meeting.

Paragraph	Comment
16E	Was paragraph 18. Amended to insert a recommended disclosure where an entity has used information prepared by other entities. Inserted a sentence to explicitly state that a budget or forecast can only be used for projections where it meets the definition of a projection, in accordance with directions from the September 2012 meeting.
Presenting Projections of Prospective Inflows and Outflows	
17	Inserted a sentence to explicitly link the preparation of projections with the definition of projection. Deleted last sentence because the explanation is in paragraph 19.
18	Moved to paragraph 16E.
19	Editorial changes. Deleted last sentence because included in paragraph 24.
20	Was the first two sentences of paragraph 22. Amended first sentence so that it doesn't infer that consistent formats will reduce the risk of skewing of LTFS information. [R35.5 OC] Amended second sentence so that terms as well as formats should be consistent between reporting periods. [R22.3 SMC 2]
21	Was the last sentence of paragraph 22. Inserted new sentence to include an example of the types of changes in projections between reporting periods. [R22.3 SMC 2]
22	Moved to paragraphs 20 and 21.
23	Deleted because it is unnecessary and unclear. [R11 and R35.6 OC]
<u>Time Horizon</u>	
24	Editorial changes.
25	Editorial changes.
26	Editorial changes including removal of reference to infrastructure assets because the IPSASB agreed not to use that term in IPSAS 32, <i>Service Concession Arrangements: Grantor</i> . The paragraph now refers to property, plant, and equipment and includes an example, road networks.
26A	Inserted first sentence to recommend disclosure of the time horizon and the reasons for selecting that time horizon. [R25.3 OC] Inserted second sentence to recommend disclosure of a change in time horizon and the reasons for such a change. [R35.6 SMC 3]
<u>Indicators</u>	
26B	Inserted so that there is an explicit link between the indicators and dimensions of LTFS. [R37 SMC 2] The paragraph also lists the characteristics entities should apply to choose indicators. These characteristics are based on Preliminary View 4 from the LTFS Consultation Paper.

Paragraph	Comment
26C	Was paragraph 21. Editorial changes.
26D	Inserted to deal with the situation where indicators are calculated using amounts calculated using non-IPSAS based sources such as GFS reporting guidelines and recommends disclosure of this fact.
26E	Inserted to recommend disclosure of significant changes in the measures of indicators compared to the previous reporting period and changes in the indicators used. [R31.2 SMC 3]
Addressing the Dimensions of <u>Long-Term</u> Fiscal Sustainability	
27	Deleted first two sentences and replaced with paragraph 16B. Third sentence: Deleted because it could imply that providing information on the three dimensions will automatically result in faithful representation. [R18.3 SMC 2] Inserted sentence to recommend that a narrative discussion on the dimensions of LTFS should be included in reporting LTFS information.
27A	Inserted to explain what each dimension highlights. [Task Force member]
<u>Fiscal Capacity</u>	
New heading	
28	The definition of fiscal capacity has been amended to be consistent with the definition of projection and to be consistent with the other dimensions.
29	Editorial changes.
30	Amended the terms used for the indicators so that they are consistent with the IMF <i>Manual on Fiscal Transparency 2007</i> .
<u>Service capacity</u>	
New heading	
31	The definition of service capacity has been amended to be consistent with the definition of projection and to be consistent with the other dimensions.
32	Editorial changes.
33	Editorial changes including removal of reference to infrastructure assets because the IPSASB agreed not to use that term in IPSAS 32. See comment for paragraph 26.
<u>Revenue capacity</u>	
New heading	
34	The name and definition of vulnerability have been replaced with a definition for revenue capacity.
35	Consequential changes arising from changing the dimension in paragraph 34 and

Paragraph	Comment
	editorial changes. Inclusion of reference to receiving revenues from international organizations. [R8.4 SMC 2]
36	Moved first sentence to paragraph 36A(a). Deleted second sentence as it is similar to the rest of the paragraph. Third and fifth sentences: Amended for consequential changes arising from changing the dimension in paragraph 34. Moved last sentence to be fourth sentence to improve flow of paragraph. Moved sixth sentence to paragraph 36A(b).
36A	From paragraph 36.
<u>Discussion of the Dimensions</u>	
New heading	
37	Deleted and replaced by paragraph 27A.
37A	Inserted to recommend disclosure of an analysis of significant changes in the dimensions compared with the previous reporting period, in accordance with directions from the September 2012 meeting.
<u>Disclosure of Principles and Methodologies</u>	
38	Editorial changes. Inserted third sentence to recommend that an entity may need to provide additional disclosures to meet the objectives of financial reporting, in accordance with directions from the September 2012 meeting.
38A	Inserted to recommend disclosure of changes principles, assumptions and approaches from the previous reporting period, the nature and extent of these changes and the reasons for such changes, in accordance with directions from the September 2012 meeting.
<u>Updating Projections and Frequency of Reporting</u>	
39	Moved first sentence to paragraph 39A to separate the recommend disclosure from the explanation. [R3 SMC 3] The second half of the second sentence has been deleted because it is unnecessary. [R35.3 SMC 3] Inserted second to last sentence to explain that projections should be updated on a more frequent basis in periods of global financial volatility. Inserted last sentence to include reference to updating projections after unexpected events such as natural disasters or other emergencies. [R14.2 SMC 3]
39A	From paragraph 39.
<u>Current and Future Policy</u>	
40	Inserted sub-paragraphs (a)–(c) to make it clear that there are situations where an entity might depart from current policy and therefore provide a link to the following

Paragraph	Comment
	paragraphs which give examples.
40A	Moved sentences from paragraph 40 to clearly distinguish the example. Editorial changes.
41	Editorial changes.
41A	Inserted a new example of a policy that has been changed in a consistent direction over time, in accordance with an example given at the September 2012 meeting.
42	No change.
42A	Inserted to explain how to deal with policy changes that have been enacted before the reporting date which have an implementation date within the time horizon of the projections, in accordance with directions from the September 2012 meeting.
42B	Moved disclosure recommendations to this paragraph from paragraphs 40–42. [R3 SMC 3]
Approach to Revenue <u>I</u>nflows	
43	Editorial changes. Second half of first sentence and last sentence moved to paragraph 43B to separate disclosure recommendations from explanations.
43A	Inserted to include guidance on the approach to revenues for natural resource dependent countries. [R8.2 OC]
43B	Moved disclosure recommendations to this paragraph from paragraph 43. [R3 SMC 3]
Demographic and Economic Assumptions	
44	First sentence moved to paragraph 44A to separate disclosure recommendations from explanations. Editorial changes.
44A	Inserted a further recommended disclosure for the review and updating of assumptions. [R12.3 and R14.1 SMC 3]
Approach to Age-Related and Non-Age-Related Programs	
45	Editorial changes.
45A	Moved disclosure recommendations to this paragraph from paragraph 45. [R3 SMC 3] Editorial changes.
Impact of Legal Requirements and Policy Frameworks	
46	Editorial changes.
46A	Moved disclosure recommendations to this paragraph from paragraphs 46 and 47. [R3

Paragraph	Comment
	SMC 3] Editorial changes.
47	Editorial changes.
Inflation and Discount Rates	
48	Editorial changes.
48A	Moved disclosure recommendations to this paragraph from paragraph 48. [R3 SMC 3] Editorial changes.
Sensitivity Analysis	
49	Editorial changes.
49A	Moved disclosure recommendations to this paragraph from paragraph 49. [R3 SMC 3] Editorial changes. [R12.7 SMC 3] Deleted last sentence because it is unnecessary.
Reliability of Projections	
50	Deleted second to last sentence because now covered in paragraph 17. Deleted last sentence because it is unnecessary.
51	Deleted because now covered by paragraph 6A.
Appendix A: Glossary of Indicators	
	<ul style="list-style-type: none"> Inserted introductory sentences to explain that this Appendix includes a limited selection of examples of indicators and that where an indicator includes a defined term the definition of that term is also included in the Appendix. Some of the definitions are based on the draft GFSM 2011. If that guidance is not finalized before the RPG then the equivalent definitions will be taken from GFSM 2001. Revised definitions so that the wording corresponds exactly to their source wording.
Appendix B: Existing Definitions in IPSASs	
	<ul style="list-style-type: none"> Inserted new appendix which lists relevant definitions from existing IPSASs, in accordance with directions from the September 2012 meeting.

DRAFT RPG 1—REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES

MARKED-UP VERSION

Objective

1. Reporting on the long-term sustainability of an entity's finances ("reporting long-term fiscal sustainability information") provides information on the impact of current policies and decisions made at the reporting date and supplements information in the general purpose financial statements (~~hereafter, the~~ "financial statements"). This Recommended Practice Guideline (RPG) provides advice guidance on the approach to reporting ~~on the~~ long-term fiscal sustainability of the finances of a public sector entity information. The aim of such reporting is to provide an indication of the projected long-term fiscal sustainability of the ~~reporting~~ entity over a specified time horizon in accordance with transparent assumptions.
- 1A. [Was paragraph 8] Measures of Long-term fiscal sustainability ~~are information~~ is broader than measures of financial position information derived from the financial statements. ~~They It~~ includes projected inflows and outflows related to the provision of goods and services and programs providing social benefits under current policy over a ~~pre-determined specified~~ time horizon. ~~It and~~ therefore takes into account ~~commitments related to~~ decisions made by the ~~reporting~~ entity on or before the reporting date that do not meet the definition and/or recognition criteria for liabilities. Similarly ~~they it~~ takes into account future taxation receipts, contributions and inter-governmental transfers that do not meet the definition of, and/or recognition criteria for, assets.
- 1B. [Was paragraph 9] Assessments of long-term fiscal sustainability involve the use of a broad range of data. These data include financial and non-financial information about current economic and demographic conditions, assumptions about ~~national country~~ and global trends such as productivity, the relative competitiveness of the national, state or local economy and expected changes in demographic variables such as age, longevity, gender, income, educational attainment and morbidity.

Status and Scope

2. This RPG provides guidance on reporting long-term fiscal sustainability information. The reporting of information in accordance with this RPG represents good best practice. ~~As part of reporting on its long-term fiscal sustainability an entity should indicate that it has followed this RPG or disclose if it has departed from the RPG and explain why such a departure was necessary.~~
- 2A. ~~Although this RPG does not have the authority of an International Public Sector Accounting Standard (IPSAS), a~~ An entity reporting ~~on the~~ long-term fiscal sustainability information of its finances is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs) applicable to the financial statements.
3. The scope of this RPG includes all an entity's projected flows. It is not limited to those flows related to programs providing social benefits. Nevertheless, this RPG acknowledges that tThe flows

relating to programs providing social benefits, including entitlement programs that require contributions from participants, can be a highly significant component of reporting ~~on~~ long-term fiscal sustainability information for many entities. ~~However, the scope of this RPG includes all an entity's projected flows and is not limited to those related to programs providing social benefits.~~

4. ~~This RPG does not directly address issues associated with the reporting of environmental sustainability is not directly within the scope of this RPG.~~ However, an entity should assess any it is important that the financial impacts of environmental factors and take them into account when developing its projections ~~and assessing the long-term fiscal sustainability of an entity.~~
5. This RPG applies to all public sector entities, except Government Business Enterprises (GBEs). ~~In assessing whether it is appropriate for an entity to report on the long-term sustainability of its finances an entity may consider the factors outlined in the section on "Determining Whether to Report on Long-Term Fiscal Sustainability."~~
6. Although this RPG does not apply directly to GBEs, the prospective inflows and outflows to/from the ~~reporting~~ entity from/to a GBE over the pre-determined-specified time horizon of the projections are within the scope of this RPG.
- 6A. An entity whose long-term fiscal sustainability information complies with this RPG should make an explicit and unreserved statement of such compliance. Long-term fiscal sustainability information should not be described as complying with this RPG unless it complies with all the requirements of this RPG.
- 6B. This RPG does not provide guidance on the level of assurance (if any) to which long-term fiscal sustainability information should be subjected.

Definitions

7. The following terms are ~~defined-used~~ in this RPG with the meaning specified:

Fiscal capacity is the ability of the entity to meet financial commitments, such as the servicing and repayment of debt, ~~and liabilities to creditors, on a continuing basis~~ over the period of the projections, ~~without increasing levels of taxation using the entity's policies for service delivery to recipients and entitlements for beneficiaries, and for raising taxes and other revenue.~~

Inflows are cash and cash equivalents projected to ~~accrue to be received by~~ the ~~reporting~~ entity over the time horizon of the projections.

Long-Term Fiscal Sustainability is the ability of an entity to meet service delivery and financial commitments both now and in the future.

Outflows are cash and cash equivalents ~~related to expenditure~~ projected to be incurred by the ~~reporting~~ entity over the time horizon of the projections.

A projection is prospective financial information prepared on the basis of supportable assumptions about the entity's policies, and future economic and other conditions.

Service capacity is ~~the ability of the extent to which (a)~~ the entity ~~can to~~ maintain the volume and quality of services ~~at the volume and quality~~ provided to ~~current~~ recipients ~~at the reporting date~~ and ~~(b)~~ meet obligations related to entitlement programs for ~~current and~~

future beneficiaries, over the period of the projections, using the entity's policies for raising taxes and other revenue, and remain within debt constraints.

Vulnerability is (a) the extent to which an entity is fiscally dependent upon funding sources outside its control, principally inter-governmental transfers, and (b) the extent to which an entity has powers to vary existing taxation levels or other revenue sources and to create new sources of taxation and revenue.

Revenue capacity is (a) the ability of the entity to vary existing taxation levels or other revenue sources and to introduce new sources of taxation or other revenue and (b) the entity's dependency upon funding sources outside its control, over the period of the projections, which finance the entity's policies for service delivery to recipients and entitlements for beneficiaries, and remain within debt constraints.

8. [Moved to paragraph 1A]

9. [Moved to paragraph 1B]

Determining Whether to Report ~~on~~ Long-Term Fiscal Sustainability Information

10. [Was paragraph 14] In evaluating-determining whether to report ~~on the~~ long-term fiscal sustainability of its finances information, an entity needs ~~initially~~ to assess whether potential users exist for prospective financial information.

11. [Was paragraph 15] The relevance of reporting ~~on an entity's~~ long-term fiscal sustainability information should be considered in the context of that entity's funding and capacity to determine service delivery levels. There are likely to be users for long-term fiscal sustainability information for entities with one or more of the following characteristics:

- (a) Significant tax and/or other revenue raising powers;
- (b) Powers to incur significant debt; or
- (c) Wide decision-making powers over The power and ability to determine the nature, level and method of service delivery levels including the introduction of new services.

12. [Was paragraph 16] If a controlled entity determines that there are users for ~~information on the~~ long-term fiscal sustainability information, of their finances it should ensure that (a) the information reported is ~~(a)~~ consistent with information reported by the controlling entity, (b) ~~that~~ the controlling entity is identified, and (c) users are made aware whether or not the controlling entity reports of information on long-term fiscal sustainability reported by information the controlling entity.

Reporting Boundary

13. [Was paragraph 10] An entity should use the same reporting boundary for reporting This RPG reflects the view that entities and activities included in long-term fiscal sustainability projections information as that used should be the same as those for the financial statements. This enhances the understandability of projections and increases their usefulness to the users of general purpose financial reports (GPFRs).

14. [Was paragraph 11] In the event that entities within the reporting boundary for the long-term fiscal sustainability information ~~financial statements~~ are different to those for the ~~long-term fiscal~~

~~sustainability projections financial statements~~, those entities should be identified, and, where possible, the estimated impact on the projections disclosed.

15. ~~[Was paragraph 12] An entity may report long-term fiscal sustainability information in respect of those entities that comprise At the consolidated national or whole-of-government levels it may be considered appropriate to disclose information based on~~ the General Government Sector (GGS), ~~as defined in the System of National Accounts~~. This may be to enhance consistency and comparability with other jurisdictions ~~and also or~~ because ~~many there are other~~ indicators that are used to assess ~~long-term~~ fiscal sustainability ~~at the consolidated national level are~~ based on the GGS. ~~In this situation Where such disclosures are made it is important an entity should explain that an explanation is provided of~~ how the boundary of the GGS differs from that of the ~~reporting entity boundary for the financial statements~~. Entities providing information on the GGS are encouraged to also present information in accordance with IPSAS 22, *Disclosure of Financial Information about the General Government Sector*.
16. ~~[Was paragraph 13] It may be considered appropriate to disclose information on long-term fiscal sustainability based on the boundary of the budget sector. In such cases it is important that an explanation is provided of how the boundary of the budget sector differs from that of the reporting entity.~~

Key Principles of Reporting Long-Term Fiscal Sustainability Information

- 16A. ~~Long-term fiscal sustainability information should enable users to form an overall assessment of the long-term fiscal sustainability of the entity and the nature and extent of risks that the entity faces.~~
- 16B. ~~The form and content of an entity's long-term fiscal sustainability information will vary depending on the nature of the entity and the regulatory environment in which it operates. To meet the objectives¹ and qualitative characteristics² of financial reporting, long-term fiscal sustainability information will usually include the following components:~~
- ~~(a) Projections of prospective inflows and outflows (see paragraphs 17–26A);~~
 - ~~(b) A narrative discussion of the basis of preparation of the projections (see paragraphs 38–50); and~~
 - ~~(c) A narrative discussion of the dimensions of long-term fiscal sustainability (see paragraphs 27–37A).~~
- 16C. ~~Long-term fiscal sustainability information should include only information that is material to the entity.~~
- 16D. ~~Long-term fiscal sustainability information may be published as a separate report or as part of another report. It may be published at the same time as the entity's GPFs or at a different time.~~

¹ ~~The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reports for accountability purposes and for decision-making purposes. See Phase 1 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) for further details.~~

² ~~The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. See Phase 1 of the Conceptual Framework for further details.~~

16E ~~[Was paragraph 18] Where an An entity determines that it is appropriate to report on the long-term sustainability of its finances, it should assess the extent to which it can draw on the projections and indicators prepared by other governmental bodies/entities, such as Mministries of Ffinance, rather than making the projections preparing the information itself, as this can in order to reduce the cost of such reporting. When an entity uses projections and indicators prepared by other entities, it should disclose this fact. Where an entity has a budget or forecast that meets the definition of a projection, this information can be used for the relevant time period or periods.~~

Presenting Projections of Prospective Inflows and Outflows

17. ~~The core information An entity should present ed on the long-term sustainability of an entity's finances will be~~ projections of all prospective inflows and outflows, including those related to capital expenditure, commencing in the current reporting period for a period-specified time horizon ~~selected and disclosed by the reporting entity. The projections should be prepared on the basis of supportable assumptions about the entity's policies, and future economic and other conditions. The information may be presented in a statement or through graphs, supported by narrative reporting.~~

18. ~~[Moved to paragraph 16E]~~

19. Projections can be displayed in tabular statements or graphical formats providing details of the ~~activities and~~ programs and activities giving rise to outflows and identifying the sources of inflows. In determining the format of tabular statements entities need to balance considerations of understandability and relevance. Multi-columnar presentation of a large number of time periods between the reporting date and the end of the time horizon provides a more complete information set, but such a presentation increases the risks of information overload and the impairment of understandability. ~~A focus on a very small number of time periods may neglect trends arising from key events between time periods.~~

20. ~~[Was first two sentences of paragraph 22] An entity should ensure that its presentation of projections is not There is a risk that both tabular statements and graphical disclosure can be skewed to present a misleadingly favorable picture. It is therefore important that The formats and terms used should also be are consistent between reporting periods. An entity should explain and that any modifications of formats between reporting periods and the reasons for such changes are highlighted and explained.~~

21. ~~[was last sentence of paragraph 22] An entity should explain It is also good practice to display a supplementary statement that shows the changes in projections between reporting dates and the reasons for those changes. Such changes could arise from (a) the implementation of policy changes from the last reporting date, and/or (b) changes in economic and demographic assumptions.~~

~~[Was paragraph 20] A single presentation approach is unlikely to satisfy the objectives of financial reporting. Statements will need to be complemented by additional presentational methods involving a combination of narrative reporting, graphical presentation and the use of indicators. Projections of net debt are likely to be central for many reporting entities. Other examples of indicators include:~~ [Content in paragraphs 16B, 19, 26B, 26C and 29]

(a) ~~Total gross debt;~~

(b) ~~Net worth;~~

- (c) ~~Net financial worth;~~
 - (d) ~~Fiscal gap;~~
 - (e) ~~Inter-temporal budget gap;~~
 - (f) ~~Net debt/total revenues; and~~
 - (g) ~~Fiscal dependency.~~
22. ~~[Moved to paragraph 20] There is a risk that both tabular statements and graphical disclosure can be skewed to present a misleadingly favorable picture. It is therefore important that formats are consistent between reporting periods and that any modifications of formats between reporting periods are highlighted and explained. It is also good practice to display a supplementary statement that shows the changes in projections between reporting dates and the reasons for those changes.~~
23. ~~Projections should begin with the cash flows related to the settlement of liabilities and cash-generating assets recognized in the statement of financial position of the entity. Projections will then address short-term solvency, including cash flows related to commitments and powers not recognized as liabilities and assets in the statement of financial position, and finally, obligations and inflows that may not be settled for many years.~~

Time Horizon

24. In selecting an appropriate time horizon an entity needs to balance the qualitative characteristics of verifiability and faithful representation. The further the end of the time horizon is from the reporting date the more future events are captured. However, the assumptions underpinning the projections become less robust and potentially less verifiable. Conversely, excessively short time horizons may increase the risk that the consequences of events outside the time horizon may be ignored, thereby reducing the relevance of projections.
25. There is a strong relationship between fiscal dependency and time horizons. Generally, high levels of fiscal dependency may lead to the selection of shorter time horizons, because a high proportion of the ~~reporting~~ entity's prospective inflows are dependent upon decisions by other entities over which the ~~reporting~~ entity has no control and limited influence.
26. Apart from fiscal dependency, the length of the time horizon will reflect the characteristics of the ~~reporting~~ entity. It is likely to be influenced by aspects such as the longevity of key programs, the estimated lives of major ~~infrastructure assets~~ items of property, plant, and equipment, such as road networks, and the time horizons adopted by other ~~government bodies and agencies comparable entities~~ providing prospective information.
- 26A. An entity should disclose the time horizon used for the projections and the reasons for selecting that time horizon. Where an entity changes the time horizon from that used in the previous reporting period, it should disclose the reason for such a change.

Indicators

- 26B. An entity can use indicators to portray various dimensions of long-term fiscal sustainability. An entity should choose its indicators 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 address the dimensions of long term fiscal sustainability.

26C. [Was paragraph 21] Descriptions–Examples of these indicators are provided in the Glossary of Indicators at Appendix A.

26D. Indicators may be calculated using amounts recognized in accordance with IPSAS requirements, Government Finance Statistics reporting guidelines or other requirements such as those specified in legislation. Where an entity uses indicators that are based on amounts derived from non-IPSAS based sources, it should disclose this fact and, where possible, the estimated impact on the indicators.

26E. An entity should disclose:

- (a) Significant changes in the measures of indicators compared to the previous reporting period; and
- (b) Changes of the indicators chosen to report long-term fiscal sustainability information from the previous reporting period, and the reasons for such changes.

Addressing the Dimensions of Long-Term Fiscal Sustainability

27. The presentation of information on the long-term sustainability of an entity's finances should be faithfully representative. This requires the inclusion of narrative discussion in order to put the projections in context. Faithful representation can be satisfied by presenting narrative information. An entity reporting long-term fiscal sustainability information should include a narrative discussion on the dimensions of long-term fiscal sustainability. This RPG discusses along three inter-related dimensions of long-term fiscal sustainability:

- Fiscal capacity;
- Service capacity; and
- VulnerabilityRevenue capacity.

27A. The dimensions highlight the entity's vulnerability to market expectations and economic conditions, changes in public demand for services, and dependency on revenue streams.

Fiscal Capacity

28. *Fiscal capacity* is the ability of ~~an the~~ entity to meet financial commitments, such as the servicing and repayment of debt, ~~and liabilities to creditors, on a continuing basis~~ over the period of the projections, ~~without increasing levels of taxation using the entity's policies for service delivery to recipients and entitlements for beneficiaries, and for raising taxes and other revenue.~~

29. The level of net debt is critical important to for an assessment of fiscal capacity, as, at any reporting ~~point~~date, it represents the amount expended on the past provision of goods and services that has to be ~~serviced and~~ financed in the future. By projecting current policies for the provision of goods and services, and current policies for raising taxes and other revenues ~~into the future~~, projected levels of net debt can be presented. Users can then assess the entity's ability to raise and maintain such levels of debt and thereby evaluate fiscal capacity.

30. At national levels a factor to consider in presenting such projections is whether to distinguish: (a) the primary ~~balanced deficit~~, which is total projected government spending, excluding interest payable on debt, minus tax revenues, and (b) the ~~total deficit overall balance~~, which is the primary balance including includes outflows related to interest payable on debt. At sub-national levels the focus may be on net debt as a percentage of total revenues. Increases in this indicator show that an increasing proportion of revenues will be required for debt servicing, thereby diverting resources from service delivery, and that the long-term fiscal position may become unsustainable.

Service Capacity

31. Service capacity is the ability of extent to which (a) the entity can to maintain the volume and quality of services at the volume and quality provided to current recipients at the reporting date and (b) meet obligations related to entitlement programs for current and future beneficiaries, over the period of the projections, using the entity's policies for raising taxes and other revenue, and remain within debt constraints.
32. By projecting the impact of policies for raising taxes and other revenues, and policies for raising and maintaining debt ~~into the future~~, long-term fiscal sustainability reports information can present the amounts available for the provision of goods and services under these policies. Users can contrast this information with the entity's service delivery commitments, and thereby ~~use long-term fiscal information to~~ evaluate service capacity.
33. A factor to consider in making such comparisons is the extent to which expenditure on certain programs is likely to increase more steeply than the overall levels of expenditure of the entity. This may be because the number of beneficiaries is projected to increase for a particular program or because costs associated with certain programs, such as healthcare, are projected to increase more quickly than the general inflation rate. For capital intensive activities the dimension of service capacity also involves an assessment of infrastructure the useful lives and replacement cycles of items of property, plant, and equipment to assess whether service capacity is increasing or decreasing in order to ensure that net outflows on property, plant and equipment are recorded.

Revenue Capacity

34. Revenue capacity is (a) the ability of the entity to vary existing taxation levels or other revenue sources and to introduce new sources of taxation or other revenue and (b) the entity's dependency upon funding sources outside its control, over the period of the projections, which finance the entity's policies for service delivery to recipients and entitlements for beneficiaries, and remain within debt constraints. ~~Vulnerability is (a) the extent to which an entity is fiscally dependent upon funding sources outside its control, principally inter-governmental transfers, and (b) the extent to which an entity has powers to vary existing taxation levels or other revenue sources and to create new sources of taxation and revenue.~~
35. An example of Vulnerability is exemplified by an indicator for revenue capacity is of the proportion of total inflows revenues that are received from entities at other levels of government or from international organizations.; ~~For example,~~ a local government entity may be able to that can raise property taxes, but ~~be is~~ partially dependent upon a mixture of general grants and specific grants from national and/or state governments. As policies for the provision of goods and services, and policies for managing debt are projected into the future, the level of revenue required to maintain fund such policies can be presented ~~in a long-term fiscal sustainability report~~. Users ~~are can~~ then

~~enabled to assess the entity's ability to raise and maintain its levels of revenue this information against the entity's revenue-raising ability and thereby evaluate vulnerability~~revenue capacity.

36. ~~The main entities on which the reporting entity is fiscally dependent should be identified. Reporting along this dimension may also involve consideration of the extent to which the entity is able to generate taxes and other sources of revenue. Generally, an entity which has a limited ability to vary levels of taxation and other revenue sources is likely to have low revenue capacity that is highly vulnerable is likely to have limited control over the sustainability of its finances. If inter-governmental transfers have constitutional or other legal underpinning, this may make the entity less susceptible to sudden adverse funding decisions by other entities and therefore increase the probability of continuing to receive funds. Trends indicating that revenue capacity is decreasing vulnerability is increasing may suggest that an entity's future sustainability is dependent upon funding decisions by entities at other levels of government. It is important that users are provided with details of constitutionally or statutorily-based revenue sharing or grant arrangements. Vulnerability may be mitigated if inter-governmental transfers have constitutional or other legal underpinning, which may make the entity less susceptible to sudden adverse funding decisions by other entities and therefore increase the probability of receiving funds.~~

36A. An entity should disclose:

- (a) The main entities on which the entity is fiscally dependent; and
- (b) Details of constitutional or other legal underpinning for taxation and other revenue or grant arrangements.

Discussion of the Dimensions

37. ~~Both fiscal capacity and service capacity involve consideration of the capacity of entities to finance future obligations identified in the fiscal capacity and service capacity dimensions without increasing aggregate levels of taxation.~~

37A. In providing narrative discussion on the dimensions of long-term fiscal sustainability, an entity should include an analysis of significant changes in the measures of the dimensions compared with those of the previous reporting period as this can help users to understand the reasons for any changes.

Disclosure of Principles and Methodologies

38. The basis of preparation of projections should be made clear. An entity should disclose. This means that the principles, assumptions and approaches to methodology that underpin the projections should be disclosed. Although this section discusses disclosures, if these disclosures do not meet the objectives of financial reporting, the entity should disclose whatever additional information is necessary to meet those objectives. This section discusses:

- Updating projections and frequency of reporting;
- Current and future policy;
- Approach to revenue inflows;
- Demographic and economic assumptions;
- Approach to age-related and non-age-related programs;

- Impact of legal requirements and policy frameworks;
- Inflation and discount rates;
- Sensitivity analysis; and
- Reliability of projections.

38A. An entity should disclose any changes in the principles, assumptions and approaches to methodologies from the previous reporting period, the nature and extent of these changes, and the reasons for such changes.

Updating Projections and Frequency of Reporting

39. ~~The date at which a full set of projections was made and the basis and timing of subsequent updating should be disclosed.~~ While regular updates are desirable, this RPG acknowledges that annual updating may not be realistic for all entities, ~~particularly those at sub-national levels, which may be making and reporting on projections for the first time.~~ However, there is an inverse relationship between the robustness of assumptions on which projections are made and the ~~amount elapse~~ of time since they were made. During periods of global financial volatility the risk that projections made some time before the reporting date are outdated increases, with a consequent reduction of the ability of such information to meet the objectives of accountability and decision-making. In this situation, an entity should consider updating its projections on a more frequent basis. An entity should also consider updating its projections after significant or major unexpected events such as natural disasters or other emergencies.

39A. An entity should disclose the date at which a full set of projections was made, the financial statements to which they relate, and the basis and timing of subsequent updating.

Current and Future Policy

40. ~~This RPG adopts the view that, w~~Where flows for particular programs and activities are individually modeled, the policy assumption should be based on information is most useful if it is assumed that current policy is. ~~That policy should be~~ held constant through the entire projection period. ~~There can be tensions if~~ However, there may be instances where a departure from current policy may be appropriate, as follows:

- (a) Where there is a conflict between current policy and legal obligations; ~~or~~
- (b) Where a policy has if current programs have “sunset provisions.”; or
- (c) Where a policy has been changed in a consistent direction over time.

40A. For An example of a conflict between a policy and legal obligations is a social security program may be governed by which has legal provisions that ~~it is make it~~ unlawful to make payments once an earmarked fund is exhausted, although entitlements of beneficiaries will continue after the exhaustion of that fund. Assuming that the fund will not meet obligations once it is exhausted might reflect a strict legal position, but an entity may need to assess whether the presentation of projections on such a basis underestimates ~~the projected outflows and therefore the~~ extent of the fiscal challenge facing the social security program. In this situation an entity may calculate its projections based on current policy despite legal restrictions.

41. ~~A policy may. Some programs~~ have sunset provisions whereby ~~they it~~ terminates after a specific period. In many cases there may be a strong probability that such programs will be replaced by similar programs, ~~so aA~~ adopting a strict legal termination principle ~~could may lead to an~~ underestimate ~~of projected~~ outflows, ~~which and therefore~~ impairs the usefulness of ~~the~~ information. ~~The approach to any legal conflicts and sunset provisions should therefore be disclosed.~~
- 41A. ~~An example of a policy that has been changed in a consistent direction over time may be the income threshold for the taxation of individuals (this is sometimes called "fiscal drag"). Assuming that the threshold remains at the same monetary amount might reflect the strict legal position, but if there is a strong probability that the threshold will be raised, an entity may need to assess whether the presentation of projections on a fixed threshold basis would overestimate projected inflows, thereby impairing the usefulness of information.~~
42. For flows that are not individually projected, the distinction between current and future policy is unlikely to be critical to the projections and it may be sufficient to disclose general assumptions.
- 42A. ~~Policy assumptions may also be affected by legal changes that have been enacted before the reporting date which have a specific implementation date within the time horizon of the projections. In these circumstances, assuming a current policy remains in force for the entire projection period will not be appropriate.~~
- 42B. ~~An entity should disclose:~~
- ~~(a) The assumptions underlying the continuation of current policy through the projection period, including situations where a policy has been changed in a consistent direction over time;~~
 - ~~(b) How any conflict between current policy and legal obligations has been addressed in making the projections; and~~
 - ~~(a)(c) How any sunset provisions in relation to current policy have been addressed in making the projections.~~

Approach to Revenue **Inf**Flows

43. ~~The main-Significant~~ sources of taxation and other revenue flows, such as inter-governmental transfers, ~~should be identified, together with their significance to an entity's revenue sources.~~ ~~Taxation flows~~ may be projected to grow in line with ~~nominal~~ gross domestic product³ (GDP) or an inflation index or may be individually modeled ~~based on current policy using a more sophisticated approach. Users need to be informed of the approach and of any relevant considerations relating to tax banding, allowances and thresholds.~~
- 43A. ~~Other revenue flows, such as royalties from natural resources, may also be projected to grow in line with GDP or an inflation index. They may also be individually modeled to address specific circumstances, such as when the natural resource is expected to be depleted.~~

³ ~~The System of National Accounts 2008 (SNA 2008) defines Gross Domestic Product in three ways. The expenditure measure of gross domestic product (GDP) is derived as the sum of expenditure on final consumption plus gross capital formation plus exports less imports. The production measure of gross domestic product (GDP) is derived as the value of output less intermediate consumption plus any taxes less subsidies on products not already included in the value of output. The income measure of GDP The income measure of gross domestic product (GDP) is derived as compensation of employees plus gross operating surplus plus gross mixed incomes plus taxes less subsidies on both production and imports.~~

43B. An entity should disclose:

- (a) Significant sources of taxation and other revenue flows;
- (b) An overview of the current policies for the significant sources of taxation and other revenue flows, such as taxation threshold levels and allowances; and
- (c) The approach taken in projecting taxation and other revenue flows.

Demographic and Economic Assumptions

44. ~~An entity should disclose the key assumptions that underpin projections these are likely to include economic growth rates, inflation, and~~ Demographic assumptions ~~such as are likely to include~~ fertility, mortality and migration rates, and workforce participation rates. Economic assumptions are likely to include economic growth rates and inflation. Other economic assumptions may include ~~Such disclosures may extend to~~ environmental factors, such as the impact of the depletion and degradation of ecosystems and the ~~erosion-depletion~~ of water and finite natural resources on economic growth.

44A. An entity should disclose the key assumptions that underpin projections together with its policy for reviewing and updating assumptions.

Approach to Age-Related and Non-Age-Related Programs

45. Age-related programs ~~are programs that~~ are often subject to eligibility criteria including age and other demographic factors. In making projections, programs and activities that are age-related may be distinguished from non-age related programs. Age-related programs may be individually modeled while non-age-related programs may be projected to increase in line with other variables, such as GDP, or to be constant in real terms. Such an approach to non-age-related programs provides some flexibility, as it allows above GDP/real terms increases in some ~~activities and~~ programs and activities to be offset by lower increases or spending declines in other areas.

45A. An entity should disclose: It is important that (a) an entity identifies

- (a) Significant ~~its major~~ age-related programs, together with an overview of those programs and the approach taken in projecting these flows; and provides details of how projections are made and (b) indicates
- (a)(b) Significant ~~how projections are made for other~~ non-age-related programs, together with an overview of those programs and the approach taken in projecting these flows.

Impact of Legal Requirements and Policy Frameworks

46. In some jurisdictions reporting ~~on the~~ long-term fiscal sustainability ~~of the public finances information~~ is governed by a legal or regulatory framework that applies at the national or state level. There may also be legal requirements ~~at sub-national levels for local government~~. These might include balanced budget requirements. Disclosure of these requirements can enhance the understandability of projections and other disclosures.

46A. An entity should disclose: Making users aware of

- (a) The key aspects of governing legislation and regulation; ~~and can enhance the understandability of projections and other disclosures.~~

- (b) ~~Consideration can also be given to providing details of where other publicly available reports can be accessed. Underlying macro-economic policy and fiscal frameworks.~~
47. ~~It is helpful to provide users with sufficient information on underlying macro-economic policy and fiscal frameworks. An entity should disclose details of where other publicly available reports can be accessed, including These might include references to other publicly available documents outside the GPFs.~~

Inflation and Discount Rates

48. ~~There are two approaches to inflation. It may Entities should indicate how they deal with inflation, in particular whether inflation has been be taken into account in making projections or whether projections may be are made at current prices (i.e., prices prevailing at the reporting date). If the projections include inflation, then the discount rate should also include inflation. If the projections are at current prices, the discount rate should exclude inflation. Entities are advised to disclose: (a) the approach to inflation (b) the discount rates applied, (c) the reasons for their selecting these rates, (d) any changes in these rates since the last reporting date, and (e) the reason for such changes.~~
- 48A. ~~An entity should disclose:~~
- ~~(a) The discount rates applied;~~
 - ~~(b) The approach to inflation; and~~
 - ~~(c) The reasons for the selection of these rates.~~

Sensitivity Analysis

49. Many assumptions on which projections are based are inherently uncertain. In some cases small changes in variables can have significant impacts on the projections. ~~While it is unlikely to be appropriate in a GPF for an entity to provide sufficient data to enable users to remodel projections by modifying assumptions. However, it may be appropriate for an entity to disclose it is important that users are made aware of (a) the sensitivity of demographic and economic assumptions that could have a significant impact on the projections. and (b) at a high level the results of any key sensitivity analyses. If inflation has been taken into account in making projections, sensitivity analysis should include the effects of variations in inflation assumptions.~~
- 49A. ~~An entity should disclose the results of any sensitivity analyses that could have a significant impact on the projections.~~

Reliability of Projections

50. ~~Users need to be made aware that that it is unlikely that projections over the specified time horizon will match the actual outcome, and that the extent of the difference between the projections and these actual outcomes will depend upon a range of factors, including the future actions of the entity in meeting any identified fiscal challenge. An entity should disclose this fact. The projections need to be reasonable and realistic and the assumptions on which they are based need to be supportable. The projections are not forecasts and it is helpful to emphasize that actual cash flows will differ from projections to users, who may not be familiar with the reporting of this kind of prospective information.~~

51. ~~There are a variety of approaches that entities may take to enhance the reasonableness and realism of projections. These include formal assurance by an external auditor and peer review by independent experts. It is good practice to disclose the steps that have been taken to ensure that key assumptions underpinning projections are realistic and that such assumptions are internally consistent.~~

Appendix A

Glossary of Indicators

Government Finance Statistics Reporting Guidelines

This Appendix lists examples of indicators. It is not intended to be an exhaustive list. Where an indicator includes a defined term, that term is shown in italics and its definition is shown after the indicators.

- **~~Total~~ Gross debt, total:** Total gross debt—often referred to as “total debt” or “total debt liabilities”—consists of all *liabilities* that are *debt instruments*. A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future. (Source: International Monetary Fund: *Public Sector Debt Statistics—Guide for Compilers and Users* 2011-~~(draft)~~)
- **Net debt:** Net debt is calculated as gross debt minus financial assets corresponding to debt instruments. (Source: International Monetary Fund: *Public Sector Debt Statistics—Guide for Compilers and Users*: 2011-~~(draft)~~)
- **Net financial worth:** Net financial worth of an *institutional unit* (or grouping of units) is the total value of its *financial assets* minus the total value of its outstanding *liabilities*, including equity and investment fund shares. (Source: International Monetary Fund: *Government Finance Statistics Manual* 2011 Chapter 7 **Draft**)
- **Net worth:** Net worth of an *institutional unit* (or grouping of units) is the total value of its *assets* minus the total value of its outstanding *liabilities*. (Source: International Monetary Fund: *Government Finance Statistics Manual* 2011 Chapter 7 **Draft**)
- **Overall balance:** This term corresponds to the GFS 1986 terminology of “Overall Deficit/Surplus,” which is defined as revenue plus grants received less expenditure less “lending minus repayments.” The balance so defined is equal (with an opposite sign) to the sum of net borrowing by the government, plus the net decrease in government cash, deposits, and securities held for liquidity purposes. The basis of this balance concept is that government policies are held to be deficit- or surplus-creating, and thus the revenue or expenditures associated with these policies are “above the line.” Borrowing or a rundown of liquid assets, however, is deficit financing or “below the line.” It should be noted that the term **lending minus repayments** included above the line covers government transactions in debt and equity claims on others undertaken for purposes of public policy rather than for management of government liquidity or earning a return. (Source: International Monetary Fund: *Manual on Fiscal Transparency* 2007)
- **Primary balance:** The overall balance, excluding interest payments. Since interest payments represent the cost of past debt, and the determinants of future debt that are under policy control of government are other spending and revenue measures exclusive of interest payment, the primary balance is of particular importance as an indicator of the fiscal position in countries with high levels of debt. (Source: International Monetary Fund: *Manual on Fiscal Transparency* 2007)

Underlying Definitions

- **Economic assets:** Economic assets are entities (i) over which economic ownership rights are enforced by institutional units, individually or collectively, and (ii) from which economic benefits may

be derived by their owners by holding them or using them over a period of time. (Source: International Monetary Fund: *Government Finance Statistics Manual 2011 Chapter 7 Draft*)

- **Financial assets:** Financial assets consist of financial claims plus gold bullion held by monetary authorities as a reserve asset. A financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability. (Source: International Monetary Fund: *Government Finance Statistics Manual 2011 Chapter 7 Draft*)
- **Institutional unit:** An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities. (Source: International Monetary Fund: *Government Finance Statistics Manual 2011 Chapter 7 Draft*)
- **Liability:** A liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor). (Source: International Monetary Fund: *Government Finance Statistics Manual 2011 Chapter 7 Draft*)

Other Sources

- **Fiscal dependency:** Proportion of an entity's total revenues currently provided by entities at other levels of government. (IPSASB: adapted from PSAB: SORP 4, Indicators of Financial Condition: 2009)[Deleted because fiscal dependency is not defined in SORP 4]
- **Fiscal gap:** The **fiscal gap** is the change in non-interest spending and/or receipts that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP).⁴ More specifically, the fiscal gap is the net present value of projected spending⁵ minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at or below the target percentage of GDP for the stated projection period. (Source: US Federal Accounting Standards Advisory Board: Statement of Federal Financial Accounting Standards 36: *Comprehensive Long-Term Projections for the U.S. Government 2009*) ~~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. (Source: Adapted from United States Congressional Budget Office: *The Long-Term Budget Outlook: 2000*)~~
- **Inter-temporal budget gapconstraint:** ~~Derived from the inter-temporal budget constraint (IBC). The ~~IBC~~ inter-temporal budget constraint is satisfied if the projected outflows of the government (current public debt and the discounted value of all future expenditure, including the projected increase in age-related expenditure) are covered by the discounted value of all future government revenue. An inter-temporal budget gap exists when the present discounted value of future government revenue does not cover the current debt burden. (Source (derived from definition of inter-temporal budget constraint): European Commission: *Sustainability Report: 2009*)~~

⁴ GDP is the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are: private sector consumption and investment, government consumption and investment, and net exports (exports-imports).

⁵ Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest ("non-interest spending").

- **Net Debt/Total Revenues:** Net debt as a proportion of total revenues. (Source Canadian Public Sector Accounting Board (PSAB): Statement of Recommended Practice 4 (SORP 4), *Indicators of Financial Condition*: 2009)

Appendix B

Existing Definitions in IPSASs

Term	Definition	Paragraph reference in this RPG
Assets	Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.	1A
Cash	Comprises cash on hand and demand deposits.	7
Cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.	7
Controlled entity	An entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).	12
Controlling entity	An entity that has one or more controlled entities.	12
Government Business Enterprise	An entity that has all the following characteristics: (a) Is an entity with the power to contract in its own name; (b) Has been assigned the financial and operational authority to carry on a business; (c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery; (d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and (e) Is controlled by a public sector entity.	5
General government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting.	15
Liabilities	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.	1A
Reporting date	The date of the last day of the reporting period to which the financial statements relate.	1
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.	7

DRAFT RPG 1—REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY’S FINANCES

CLEAN VERSION

Objective

1. Reporting on the long-term sustainability of an entity’s finances (“reporting long-term fiscal sustainability information”) provides information on the impact of current policies and decisions made at the reporting date and supplements information in the general purpose financial statements (“financial statements”). This Recommended Practice Guideline (RPG) provides guidance on the approach to reporting long-term fiscal sustainability information. The aim of such reporting is to provide an indication of the projected long-term sustainability of the entity over a specified time horizon in accordance with transparent assumptions.
- 1A. [Was paragraph 8] Long-term fiscal sustainability information is broader than information derived from the financial statements. It includes projected inflows and outflows related to the provision of goods and services and programs providing social benefits under current policy over a specified time horizon. It therefore takes into account decisions made by the entity on or before the reporting date that do not meet the definition and/or recognition criteria for liabilities. Similarly it takes into account future taxation receipts, contributions and inter-governmental transfers that do not meet the definition of, and/or recognition criteria for, assets.
- 1B. [Was paragraph 9] Assessments of long-term fiscal sustainability involve the use of a broad range of data. These data include financial and non-financial information about current economic and demographic conditions, assumptions about country and global trends such as productivity, the relative competitiveness of the national, state or local economy and expected changes in demographic variables such as age, longevity, gender, income, educational attainment and morbidity.

Status and Scope

2. This RPG provides guidance on reporting long-term fiscal sustainability information. The reporting of information in accordance with this RPG represents best practice.
- 2A. An entity reporting long-term fiscal sustainability information is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs) applicable to the financial statements.
3. The scope of this RPG includes all an entity’s projected flows. It is not limited to those flows related to programs providing social benefits. Nevertheless, this RPG acknowledges that the flows relating to programs providing social benefits, including entitlement programs that require contributions from participants, can be a highly significant component of reporting long-term fiscal sustainability information for many entities.

4. This RPG does not directly address issues associated with the reporting of environmental sustainability. However, an entity should assess any financial impacts of environmental factors and take them into account when developing its projections.
5. This RPG applies to all public sector entities, except Government Business Enterprises (GBEs).
6. Although this RPG does not apply directly to GBEs, the prospective inflows and outflows to/from the entity from/to a GBE over the specified time horizon of the projections are within the scope of this RPG.
- 6A. An entity whose long-term fiscal sustainability information complies with this RPG should make an explicit and unreserved statement of such compliance. Long-term fiscal sustainability information should not be described as complying with this RPG unless it complies with all the requirements of this RPG.
- 6B. This RPG does not provide guidance on the level of assurance (if any) to which long-term fiscal sustainability information should be subjected.

Definitions

7. The following terms are used in this RPG with the meaning specified:

Fiscal capacity is the ability of the entity to meet financial commitments, such as the servicing and repayment of debt, over the period of the projections, using the entity's policies for service delivery to recipients and entitlements for beneficiaries, and for raising taxes and other revenue.

Inflows are cash and cash equivalents projected to be received by the entity over the time horizon of the projections.

Long-Term Fiscal Sustainability is the ability of an entity to meet service delivery and financial commitments both now and in the future.

Outflows are cash and cash equivalents projected to be incurred by the entity over the time horizon of the projections.

A **projection** is prospective financial information prepared on the basis of supportable assumptions about the entity's policies, and future economic and other conditions.

Service capacity is the ability of the entity to maintain the volume and quality of services provided to recipients and meet obligations related to entitlement programs for beneficiaries, over the period of the projections, using the entity's policies for raising taxes and other revenue, and remain within debt constraints.

Revenue capacity is (a) the ability of the entity to vary existing taxation levels or other revenue sources and to introduce new sources of taxation or other revenue and (b) the entity's dependency upon funding sources outside its control, over the period of the projections, which finance the entity's policies for service delivery to recipients and entitlements for beneficiaries, and remain within debt constraints.

8. [Moved to paragraph 1A]

9. [Moved to paragraph 1B]

Determining Whether to Report Long-Term Fiscal Sustainability Information

10. [Was paragraph 14] In determining whether to report long-term fiscal sustainability information, an entity needs to assess whether potential users exist for prospective financial information.
11. [Was paragraph 15] The relevance of reporting long-term fiscal sustainability information should be considered in the context of that entity's funding and capacity to determine service delivery levels. There are likely to be users for long-term fiscal sustainability information for entities with one or more of the following characteristics:
 - (a) Significant tax and/or other revenue raising powers;
 - (b) Powers to incur significant debt; or
 - (c) The power and ability to determine the nature, level and method of service delivery including the introduction of new services.
12. [Was paragraph 16] If a controlled entity determines that there are users for long-term fiscal sustainability information, it should ensure that (a) the information reported is consistent with information reported by the controlling entity, (b) the controlling entity is identified, and (c) users are made aware whether or not the controlling entity reports long-term fiscal sustainability information.

Reporting Boundary

13. [Was paragraph 10] An entity should use the same reporting boundary for reporting long-term fiscal sustainability information as that used for the financial statements. This enhances the understandability of projections and increases their usefulness to the users of general purpose financial reports (GPFRs).
14. [Was paragraph 11] In the event that entities within the reporting boundary for long-term fiscal sustainability information are different to those for the financial statements, those entities should be identified, and, where possible, the estimated impact on the projections disclosed.
15. [Was paragraph 12] An entity may report long-term fiscal sustainability information in respect of those entities that comprise the General Government Sector (GGS). This may be to enhance consistency and comparability with other jurisdictions or because there are other indicators that are used to assess long-term fiscal sustainability based on the GGS. In this situation an entity should explain how the boundary of the GGS differs from that of the boundary for the financial statements. Entities providing information on the GGS are encouraged to also present information in accordance with IPSAS 22, *Disclosure of Financial Information about the General Government Sector*.
16. [Was paragraph 13] [Deleted]

Key Principles of Reporting Long-Term Fiscal Sustainability Information

- 16A. Long-term fiscal sustainability information should enable users to form an overall assessment of the long-term fiscal sustainability of the entity and the nature and extent of risks that the entity faces.

- 16B. The form and content of an entity's long-term fiscal sustainability information will vary depending on the nature of the entity and the regulatory environment in which it operates. To meet the objectives¹ and qualitative characteristics² of financial reporting, long-term fiscal sustainability information will usually include the following components:
- (a) Projections of prospective inflows and outflows (see paragraphs 17–26A);
 - (b) A narrative discussion of the basis of preparation of the projections (see paragraphs 38–50); and
 - (c) A narrative discussion of the dimensions of long-term fiscal sustainability (see paragraphs 27–37A).
- 16C. Long-term fiscal sustainability information should include only information that is material to the entity.
- 16D. Long-term fiscal sustainability information may be published as a separate report or as part of another report. It may be published at the same time as the entity's GPFs or at a different time.
- 16E [Was paragraph 18] An entity should assess the extent to which it can draw on the projections and indicators prepared by other entities, such as Ministries of Finance, rather than preparing the information itself, as this can reduce the cost of such reporting. When an entity uses projections and indicators prepared by other entities, it should disclose this fact. Where an entity has a budget or forecast that meets the definition of a projection, this information can be used for the relevant time period or periods.

Presenting Projections of Prospective Inflows and Outflows

17. An entity should present projections of all prospective inflows and outflows, including those related to capital expenditure, commencing in the current reporting period for a specified time horizon. The projections should be prepared on the basis of supportable assumptions about the entity's policies, and future economic and other conditions.
18. [Moved to paragraph 16E]
19. Projections can be displayed in tabular statements or graphical formats providing details of the programs and activities giving rise to outflows and identifying the sources of inflows. In determining the format of tabular statements entities need to balance considerations of understandability and relevance. Multi-columnar presentation of a large number of time periods between the reporting date and the end of the time horizon provides a more complete information set, but such a presentation increases the risk of information overload and the impairment of understandability.
20. [Was first two sentences of paragraph 22] An entity should ensure that its presentation of projections is not skewed to present a misleadingly favorable picture. The formats and terms used

¹ The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reports for accountability purposes and for decision-making purposes. See Phase 1 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) for further details.

² The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. See Phase 1 of the *Conceptual Framework* for further details.

should also be consistent between reporting periods. An entity should explain any modifications of formats between reporting periods and the reasons for such changes.

- 21. [was last sentence of paragraph 22] An entity should explain changes in projections between reporting dates and the reasons for those changes. Such changes could arise from (a) the implementation of policy changes from the last reporting date, and/or (b) changes in economic and demographic assumptions.
- 22. [Moved to paragraph 20]
- 23. [Deleted]

Time Horizon

- 24. In selecting an appropriate time horizon an entity needs to balance the qualitative characteristics of verifiability and faithful representation. The further the end of the time horizon is from the reporting date the more future events are captured. However, the assumptions underpinning the projections become less robust and potentially less verifiable. Conversely, excessively short time horizons may increase the risk that the consequences of events outside the time horizon may be ignored, thereby reducing the relevance of projections.
- 25. There is a strong relationship between fiscal dependency and time horizons. Generally, high levels of fiscal dependency may lead to the selection of shorter time horizons, because a high proportion of the entity's prospective inflows are dependent upon decisions by other entities over which the entity has no control and limited influence.
- 26. Apart from fiscal dependency, the length of the time horizon will reflect the characteristics of the entity. It is likely to be influenced by aspects such as the longevity of key programs, the estimated lives of major items of property, plant, and equipment, such as road networks, and the time horizons adopted by other comparable entities providing prospective information.
- 26A. An entity should disclose the time horizon used for the projections and the reasons for selecting that time horizon. Where an entity changes the time horizon from that used in the previous reporting period, it should disclose the reason for such a change.

Indicators

- 26B. An entity can use indicators to portray various dimensions of long-term fiscal sustainability. An entity should choose its indicators 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 address the dimensions of long term fiscal sustainability.
- 26C. [Was paragraph 21] Examples of indicators are provided in the *Glossary of Indicators* at Appendix A.
- 26D. Indicators may be calculated using amounts recognized in accordance with IPSAS requirements, Government Finance Statistics reporting guidelines or other requirements such as those specified in legislation. Where an entity uses indicators that are based on amounts derived from non-IPSAS

based sources, it should disclose this fact and, where possible, the estimated impact on the indicators.

26E. An entity should disclose:

- (a) Significant changes in the measures of indicators compared to the previous reporting period; and
- (b) Changes of the indicators chosen to report long-term fiscal sustainability information from the previous reporting period, and the reasons for such changes.

Addressing the Dimensions of Long-Term Fiscal Sustainability

27. An entity reporting long-term fiscal sustainability information should include a narrative discussion on the dimensions of long-term fiscal sustainability. This RPG discusses three inter-related dimensions of long-term fiscal sustainability:

- Fiscal capacity;
- Service capacity; and
- Revenue capacity.

27A. The dimensions highlight the entity's vulnerability to market expectations and economic conditions, changes in public demand for services, and dependency on revenue streams.

Fiscal Capacity

28. *Fiscal capacity* is the ability of the entity to meet financial commitments, such as the servicing and repayment of debt, over the period of the projections, using the entity's policies for service delivery to recipients and entitlements for beneficiaries, and for raising taxes and other revenue.

29. The level of net debt is important for an assessment of fiscal capacity, as, at any reporting date, it represents the amount expended on the past provision of goods and services that has to be financed in the future. By projecting current policies for the provision of goods and services, and current policies for raising taxes and other revenues, projected levels of net debt can be presented. Users can then assess the entity's ability to raise and maintain such levels of debt and thereby evaluate fiscal capacity.

30. At national levels a factor to consider in presenting such projections is whether to distinguish: (a) the primary balance, which is total projected government spending, excluding interest payable on debt, minus tax revenues, and (b) the overall balance, which is the primary balance including outflows related to interest payable on debt. At sub-national levels the focus may be on net debt as a percentage of total revenues. Increases in this indicator show that an increasing proportion of revenues will be required for debt servicing, thereby diverting resources from service delivery, and that the long-term fiscal position may become unsustainable.

Service Capacity

31. *Service capacity* is the ability of the entity to maintain the volume and quality of services provided to recipients and meet obligations related to entitlement programs for beneficiaries, over the period of the projections, using the entity's policies for raising taxes and other revenue, and remain within debt constraints.

32. By projecting the impact of policies for raising taxes and other revenues, and policies for raising and maintaining debt, long-term fiscal sustainability information can present the amounts available for the provision of goods and services under these policies. Users can contrast this information with the entity's service delivery commitments, and thereby evaluate service capacity.
33. A factor to consider in making such comparisons is the extent to which expenditure on certain programs is likely to increase more steeply than the overall levels of expenditure of the entity. This may be because the number of beneficiaries is projected to increase for a particular program or because costs associated with certain programs, such as healthcare, are projected to increase more quickly than the general inflation rate. For capital intensive activities the dimension of service capacity also involves an assessment of the useful lives and replacement cycles of items of property, plant, and equipment to assess whether service capacity is increasing or decreasing.

Revenue Capacity

34. *Revenue capacity* is (a) the ability of the entity to vary existing taxation levels or other revenue sources and to introduce new sources of taxation or other revenue and (b) the entity's dependency upon funding sources outside its control, over the period of the projections, which finance the entity's policies for service delivery to recipients and entitlements for beneficiaries, and remain within debt constraints.
35. An example of an indicator for revenue capacity is the proportion of total revenues that are received from entities at other levels of government or from international organizations. For example, a local government entity may be able to raise property taxes, but be partially dependent upon a mixture of general grants and specific grants from national and/or state governments. As policies for the provision of goods and services, and policies for managing debt are projected into the future, the level of revenue required to fund such policies can be presented. Users can then assess the entity's ability to raise and maintain its levels of revenue and thereby evaluate revenue capacity.
36. Generally, an entity which has a limited ability to vary levels of taxation and other revenue sources is likely to have low revenue capacity. If inter-governmental transfers have constitutional or other legal underpinning, this may make the entity less susceptible to sudden adverse funding decisions by other entities and therefore increase the probability of continuing to receive funds. Trends indicating that revenue capacity is decreasing may suggest that an entity's future sustainability is dependent upon funding decisions by entities at other levels of government.
- 36A. An entity should disclose:
 - (a) The main entities on which the entity is fiscally dependent; and
 - (b) Details of constitutional or other legal underpinning for taxation and other revenue or grant arrangements.

Discussion of the Dimensions

37. [Deleted]
- 37A. In providing narrative discussion on the dimensions of long-term fiscal sustainability, an entity should include an analysis of significant changes in the measures of the dimensions compared with those of the previous reporting period as this can help users to understand the reasons for any changes.

Principles and Methodologies

38. The basis of preparation of projections should be made clear. An entity should disclose the principles, assumptions and approaches to methodology that underpin the projections. Although this section discusses disclosures, if these disclosures do not meet the objectives of financial reporting, the entity should disclose whatever additional information is necessary to meet those objectives. This section discusses:
- Updating projections and frequency of reporting;
 - Current and future policy;
 - Approach to revenue inflows;
 - Demographic and economic assumptions;
 - Approach to age-related and non-age-related programs;
 - Impact of legal requirements and policy frameworks;
 - Inflation and discount rates;
 - Sensitivity analysis; and
 - Reliability of projections.
- 38A. An entity should disclose any changes in the principles, assumptions and approaches to methodologies from the previous reporting period, the nature and extent of these changes, and the reasons for such changes.

Updating Projections and Frequency of Reporting

39. While regular updates are desirable, this RPG acknowledges that annual updating may not be realistic for all entities. However, there is an inverse relationship between the robustness of assumptions on which projections are made and the amount of time since they were made. During periods of global financial volatility the risk that projections made some time before the reporting date are outdated increases, with a consequent reduction of the ability of such information to meet the objectives of accountability and decision-making. In this situation, an entity should consider updating its projections on a more frequent basis. An entity should also consider updating its projections after significant or major unexpected events such as natural disasters or other emergencies.
- 39A. An entity should disclose the date at which a full set of projections was made, the financial statements to which they relate, and the basis and timing of subsequent updating.

Current and Future Policy

40. Where flows for particular programs and activities are individually modeled, the policy assumption should be based on current policy. That policy should be held constant through the entire projection period. However, there may be instances where a departure from current policy may be appropriate, as follows:
- (a) Where there is a conflict between current policy and legal obligations;
 - (b) Where a policy has “sunset provisions”; or

- (c) Where a policy has been changed in a consistent direction over time.
- 40A. An example of a conflict between a policy and legal obligations is a social security program which has legal provisions that make it unlawful to make payments once an earmarked fund is exhausted, although entitlements of beneficiaries will continue after the exhaustion of that fund. Assuming that the fund will not meet obligations once it is exhausted might reflect a strict legal position, but an entity may need to assess whether the presentation of projections on such a basis underestimates projected outflows and therefore the extent of the fiscal challenge facing the social security program. In this situation an entity may calculate its projections based on current policy despite legal restrictions.
41. A policy may have sunset provisions whereby it terminates after a specific period. In many cases there may be a strong probability that such programs will be replaced by similar programs. Adopting a strict legal termination principle could underestimate projected outflows, and therefore impair the usefulness of the information.
- 41A. An example of a policy that has been changed in a consistent direction over time may be the income threshold for the taxation of individuals (this is sometimes called “fiscal drag”). Assuming that the threshold remains at the same monetary amount might reflect the strict legal position, but if there is a strong probability that the threshold will be raised, an entity may need to assess whether the presentation of projections on a fixed threshold basis would overestimate projected inflows, thereby impairing the usefulness of information.
42. For flows that are not individually projected, the distinction between current and future policy is unlikely to be critical to the projections and it may be sufficient to disclose general assumptions.
- 42A. Policy assumptions may also be affected by legal changes that have been enacted before the reporting date which have a specific implementation date within the time horizon of the projections. In these circumstances, assuming a current policy remains in force for the entire projection period will not be appropriate.
- 42B. An entity should disclose:
- (a) The assumptions underlying the continuation of current policy through the projection period, including situations where a policy has been changed in a consistent direction over time;
 - (b) How any conflict between current policy and legal obligations has been addressed in making the projections; and
 - (c) How any sunset provisions in relation to current policy have been addressed in making the projections.

Approach to Revenue Inflows

43. Significant sources of taxation and other revenue flows, such as inter-governmental transfers, may be projected to grow in line with gross domestic product³ (GDP) or an inflation index or may be individually modeled based on current policy. .

³ The System of National Accounts 2008 (SNA 2008) defines Gross Domestic Product in three ways. The expenditure measure of gross domestic product (GDP) is derived as the sum of expenditure on final consumption plus gross capital formation plus exports less imports. The production measure of gross domestic product (GDP) is derived as the value of output less intermediate consumption plus any taxes less subsidies on products not already included in the value of output.

- 43A. Other revenue flows, such as royalties from natural resources, may also be projected to grow in line with GDP or an inflation index. They may also be individually modeled to address specific circumstances, such as when the natural resource is expected to be depleted.
- 43B. An entity should disclose:
- (a) Significant sources of taxation and other revenue flows;
 - (b) An overview of the current policies for the significant sources of taxation and other revenue flows, such as taxation threshold levels and allowances; and
 - (c) The approach taken in projecting taxation and other revenue flows.

Demographic and Economic Assumptions

44. Demographic assumptions are likely to include fertility, mortality and migration rates, and workforce participation rates. Economic assumptions are likely to include economic growth rates and inflation. Other economic assumptions may include environmental factors, such as the impact of the depletion and degradation of ecosystems and the depletion of water and finite natural resources on economic growth.
- 44A. An entity should disclose the key assumptions that underpin projections together with its policy for reviewing and updating assumptions.

Approach to Age-Related and Non-Age-Related Programs

45. Age-related programs are often subject to eligibility criteria including age and other demographic factors. In making projections, programs and activities that are age-related may be distinguished from non-age related programs. Age-related programs may be individually modeled while non-age-related programs may be projected to increase in line with other variables, such as GDP, or to be constant in real terms. Such an approach to non-age-related programs provides some flexibility, as it allows above GDP/real terms increases in some programs and activities to be offset by lower increases or spending declines in other areas.
- 45A. An entity should disclose:
- (a) Significant age-related programs, together with an overview of those programs and the approach taken in projecting these flows; and
 - (b) Significant non-age-related-programs, together with an overview of those programs and the approach taken in projecting these flows.

Impact of Legal Requirements and Policy Frameworks

46. In some jurisdictions reporting long-term fiscal sustainability information is governed by a legal or regulatory framework that applies at the national or state level. There may also be legal requirements for local government. These might include balanced budget requirements. Disclosure of these requirements can enhance the understandability of projections and other disclosures.
- 46A. An entity should disclose:

The income measure of GDP The income measure of gross domestic product (GDP) is derived as compensation of employees plus gross operating surplus plus gross mixed incomes plus taxes less subsidies on both production and imports.

- (a) The key aspects of governing legislation and regulation; and
 - (b) Underlying macro-economic policy and fiscal frameworks.
47. An entity should disclose details of where other publicly available reports can be accessed, including documents outside the GPFRs.

Inflation and Discount Rates

48. There are two approaches to inflation. It may be taken into account in making projections or projections may be made at current prices (i.e., prices prevailing at the reporting date). If the projections include inflation, then the discount rate should also include inflation. If the projections are at current prices, the discount rate should exclude inflation.
- 48A. An entity should disclose:
- (a) The discount rates applied;
 - (b) The approach to inflation; and
 - (c) The reasons for the selection of these rates.

Sensitivity Analysis

49. Many assumptions on which projections are based are inherently uncertain. In some cases small changes in variables can have significant impacts on the projections. It is unlikely to be appropriate for an entity to provide sufficient data to enable users to remodel projections by modifying assumptions. However, it may be appropriate for an entity to disclose the sensitivity of demographic and economic assumptions that could have a significant impact on the projections.
- 49A. An entity should disclose the results of any sensitivity analyses that could have a significant impact on the projections.

Reliability of Projections

50. It is unlikely that projections over the specified time horizon will match the actual outcome. The extent of the difference will depend upon a range of factors, including the future actions of the entity in meeting any identified fiscal challenge. An entity should disclose this fact.
51. [Deleted]

Appendix A

Glossary of Indicators

Government Finance Statistics Reporting Guidelines

This Appendix lists examples of indicators. It is not intended to be an exhaustive list. Where an indicator includes a defined term, that term is shown in *italics* and its definition is shown after the indicators.

- **Gross debt, total:** Total gross debt—often referred to as “total debt” or “total debt liabilities”—consists of all *liabilities* that are *debt instruments*. A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future. (Source: International Monetary Fund: *Public Sector Debt Statistics—Guide for Compilers and Users* 2011)
- **Net debt:** Net debt is calculated as gross debt minus *financial assets* corresponding to *debt instruments*. (Source: International Monetary Fund: *Public Sector Debt Statistics—Guide for Compilers and Users*: 2011)
- **Net financial worth:** Net financial worth of an *institutional unit* (or grouping of units) is the total value of its *financial assets* minus the total value of its outstanding *liabilities*, including equity and investment fund shares. (Source: International Monetary Fund: *Government Finance Statistics Manual* 2011 Chapter 7 **Draft**)
- **Net worth:** Net worth of an *institutional unit* (or grouping of units) is the total value of its *assets* minus the total value of its outstanding *liabilities*. (Source: International Monetary Fund: *Government Finance Statistics Manual* 2011 Chapter 7 **Draft**)
- **Overall balance:** This term corresponds to the GFS 1986 terminology of “Overall Deficit/Surplus,” which is defined as revenue plus grants received less expenditure less “lending minus repayments.” The balance so defined is equal (with an opposite sign) to the sum of net borrowing by the government, plus the net decrease in government cash, deposits, and securities held for liquidity purposes. The basis of this balance concept is that government policies are held to be deficit- or surplus-creating, and thus the revenue or expenditures associated with these policies are “above the line.” Borrowing or a rundown of liquid assets, however, is deficit financing or “below the line.” It should be noted that the term **lending minus repayments** included above the line covers government transactions in debt and equity claims on others undertaken for purposes of public policy rather than for management of government liquidity or earning a return. (Source: International Monetary Fund: *Manual on Fiscal Transparency* 2007)
- **Primary balance:** The overall balance, excluding interest payments. Since interest payments represent the cost of past debt, and the determinants of future debt that are under policy control of government are other spending and revenue measures exclusive of interest payment, the primary balance is of particular importance as an indicator of the fiscal position in countries with high levels of debt. (Source: International Monetary Fund: *Manual on Fiscal Transparency* 2007)

Underlying Definitions

- **Economic assets:** Economic assets are entities (i) over which economic ownership rights are enforced by institutional units, individually or collectively, and (ii) from which economic benefits may

be derived by their owners by holding them or using them over a period of time. (Source: International Monetary Fund: *Government Finance Statistics Manual* 2011 Chapter 7 **Draft**)

- **Financial assets:** Financial assets consist of financial claims plus gold bullion held by monetary authorities as a reserve asset. A financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability. (Source: International Monetary Fund: *Government Finance Statistics Manual* 2011 Chapter 7 **Draft**)
- **Institutional unit:** An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities. (Source: International Monetary Fund: *Government Finance Statistics Manual* 2011 Chapter 7 **Draft**)
- **Liability:** A liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor). (Source: International Monetary Fund: *Government Finance Statistics Manual* 2011 Chapter 7 **Draft**)

Other Sources

- [Deleted because fiscal dependency is not defined in SORP 4]
- **Fiscal gap:** The **fiscal gap** is the change in non-interest spending and/or receipts that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP).⁴ More specifically, the fiscal gap is the net present value of projected spending⁵ minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at or below the target percentage of GDP for the stated projection period. (Source: US Federal Accounting Standards Advisory Board: Statement of Federal Financial Accounting Standards 36: *Comprehensive Long-Term Projections for the U.S. Government* 2009)
- **Inter-temporal budget constraint:** The inter-temporal budget constraint is satisfied if the projected outflows of the government (current public debt and the discounted value of all future expenditure, including the projected increase in age-related expenditure) are covered by the discounted value of all future government revenue. (Source European Commission: *Sustainability Report*: 2009))
- **Net Debt/Total Revenues:** Net debt as a proportion of total revenues. (Source Canadian Public Sector Accounting Board (PSAB): Statement of Recommended Practice 4 (SORP 4), *Indicators of Financial Condition*: 2009)

⁴ GDP is the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are: private sector consumption and investment, government consumption and investment, and net exports (exports-imports).

⁵ Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest ("non-interest spending").

Appendix B

Existing Definitions in IPSASs

Term	Definition	Paragraph reference in this RPG
Assets	Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.	1A
Cash	Comprises cash on hand and demand deposits.	7
Cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.	7
Controlled entity	An entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).	12
Controlling entity	An entity that has one or more controlled entities.	12
Government Business Enterprise	An entity that has all the following characteristics: (a) Is an entity with the power to contract in its own name; (b) Has been assigned the financial and operational authority to carry on a business; (c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery; (d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and (e) Is controlled by a public sector entity.	5
General government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting.	15
Liabilities	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.	1A
Reporting date	The date of the last day of the reporting period to which the financial statements relate.	1
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.	7