



Federal Accounting Standards Advisory Board

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July 6, 2007

Memorandum

To: Members of the Board

From: Eileen W. Parlow, Assistant Director

Through: Wendy M. Comes, Executive Director

Subj: Survey of International Reporting on Fiscal Sustainability

NOTE: The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Attached is a brief survey of reporting on fiscal sustainability by the governments of:

- Australia
- Canada
- New Zealand
- U.K.

Also attached are copies of the most recent reports.

Please review this material in preparation for a discussion of fiscal sustainability at the July 2007 Board Meeting. Additional material on fiscal sustainability reporting will be included in the July 2007 binder.

If you have any questions or comments about the attached, please contact me at 202-512-7356, or by e-mail at [parlowe@fasab.gov](mailto:parlowe@fasab.gov).



# Survey of International Fiscal Sustainability Reporting

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## Introduction and summary

This survey addresses reports on fiscal sustainability that are issued by the national governments of:

- Australia
- Canada
- New Zealand
- U.K.

The four countries above were selected because they represent the major English-speaking developed nations other than the United States. Staff believes that familiarity with the results of this survey will provide useful perspective for the Board.

### Note on reporting formats:

In addition to an in-depth “Intergenerational Report 2007,” the government of Australia’s website contains three different summaries: a speech by Australia’s Treasurer on the issuance of the report, an Overview document, and an “At a Glance” summary.<sup>1</sup> These documents may be useful to the Board in considering potential requirements for reporting in the Financial Report of the U.S. Government.

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<sup>1</sup> See <http://www.treasury.gov.au/igr/IGR2007.asp>.

## Summary of research:

For Australia, Canada, New Zealand and the U.K.:

The term “fiscal sustainability” is frequently used. Definitions of fiscal sustainability, when presented, are in broad terms rather than explicit goals or rules.

	Used	Defined
Australia	X	
Canada		
New Zealand	X	X
U.K.	X	X

All four countries present financial data primarily as a percentage of GDP rather than dollar amounts.

	Financial Data Primarily as a % of GDP
Australia	X
Canada	X
New Zealand	X
U.K.	X

The majority have established targeted debt-to-GDP levels.

	Debt-to-GDP Target
Australia	
Canada	X
New Zealand	X
U.K.	X

All of the long-term fiscal sustainability reporting is required by law.

	Report Required by Law
Australia	X
Canada	X
New Zealand	X
U.K.	X

The report on fiscal sustainability is mentioned in the government-wide financial statements.

Australia	X
Canada	
New Zealand	X
U.K.	N/A*

\* The U.K. is in the process of preparing its first accrual-based government-wide financial statements (called the “whole of government accounts”) this year (2007).

Accrual-based financial statements (and the advantages and shortcomings of accrual based financial statements) are discussed in the report on fiscal sustainability.

Australia	X
Canada	
New Zealand	X
U.K.	X

## Definition and Characteristics of Fiscal Sustainability

### Australia

- Australia's first Intergenerational Report (2002-2003) defined fiscal sustainability: Fiscal sustainability is the government's ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation.<sup>2</sup>
- However, Australia's second Intergenerational Report (2007) omitted an explicit definition of fiscal sustainability. The report still used the term "fiscal sustainability," and stated that:  
Fiscal sustainability is assessed by the ratio of governments spending to Gross Domestic Product (GDP) or, equivalently, the ratio of government spending per person to GDP per person, and its implications on net debt.<sup>3</sup>

### Canada

- Canada's *Auditor General Act* defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."<sup>4</sup>
- Canada's Department of Finance's *Vision for Sustainable Development* is "Economic and fiscal policy frameworks and decisions that promote equity and enhance the economic, social and environmental well-being of current and future generations."<sup>5</sup>
- A staff working paper available through Canada's Department of Finance, "Analysing Vertical Fiscal Imbalance in a Framework of Fiscal Sustainability,"<sup>6</sup> uses a measure of fiscal sustainability that was developed by A.J. Auerbach.<sup>7</sup> However, the working paper notes that the views expressed are the views of the authors, and should not be attributed to the Ministry of Finance.

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<sup>2</sup> Australia, *Intergenerational Report 2002-3*, page 2. Available at: [http://www.budget.gov.au/2002-03/bp\\_index.html](http://www.budget.gov.au/2002-03/bp_index.html).

<sup>3</sup> Australia, *Intergenerational Report 2007*, Executive Summary, page vii. Available at: <http://www.treasury.gov.au/igr/IGR2007.asp>.

<sup>4</sup> Canada, *Sustainable Development Strategy 2007-2009*, Section 1.1. Available at: [http://www.fin.gc.ca/susdev/sds2007\\_1e.html#Executive](http://www.fin.gc.ca/susdev/sds2007_1e.html#Executive).

<sup>5</sup> Canada, *Sustainable Development Strategy 2007-2009*, Executive Summary.

<sup>6</sup> An electronic copy of the paper can be requested at: <http://www.fin.gc.ca/wp/2001-23e.html>.

<sup>7</sup> A.J. Auerbach, "Quantifying the Current U.S. Fiscal Imbalance" (1997) *National Tax Journal* 50, pp. 387-398. The measure is: "The permanent increase in taxes or reduction in expenditures (as a constant share of gross domestic product (GDP)) necessary to satisfy the government's long-run budget constraint that the current national debt equal the present value of future primary surpluses. ...The government constraint is implied by the assumption that the debt-GDP ratio cannot grow forever without bound."

## New Zealand

The New Zealand report says that “formal definitions of fiscal sustainability are satisfied if, on the basis of current policies, the present value of future primary balances (the fiscal balance before interest costs are deducted) is equal to the outstanding stock of debt.”<sup>8</sup> However, the report also notes that “The IMF [International Monetary Fund]...suggests that countries should provide some indication of the sustainability of fiscal policy. The IMF notes that such an exercise can be demanding for some countries, especially as there is no internationally agreed set of rules for establishing fiscal sustainability.”<sup>9</sup>

## U.K.:

- A broad definition is discussed as follows:

### Defining long-term fiscal sustainability

[3.2] Any assessment of long-term fiscal sustainability will have to be made against a benchmark. There are many possible definitions of sustainability. One definition is that a government should be able to meet its obligations if and when they arise in the future. Sustainability will therefore also depend on a government's future revenue (with which it might be able to meet its obligations) and the timing of the future obligations. The ability to meet obligations when they arise implies that a government should consider debt financing only as long as the debt burden remains at a prudent level. The definition is therefore in the spirit of the Government's sustainable investment rule.<sup>10</sup>

- Fiscal sustainability is described in terms of the U.K. “Objective for Fiscal Policy” and “Fiscal Rules,” as follows:

### Objectives for Fiscal Policy

[1.9] Fiscal policy is set with consideration for the short, medium and long terms. The *Code [for Fiscal Stability]* requires the Government to state its objectives and the fiscal rules by which fiscal policy is operated. The Government's objectives for fiscal policy are:

- over the medium term, to ensure sound public finances and that spending and taxation impact fairly both within and between generations; and
- over the short term, to support monetary policy; and, in particular, to allow the automatic stabilizers to help smooth the path of the economy.

### Fiscal Rules

[1.11] The Government has formulated two fiscal rules through which the objectives for fiscal policy are implemented, which also reflect the commitments to fiscal sustainability and generational fairness. They are:

- the golden rule: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and

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<sup>8</sup> New Zealand, Statement on the Long-Term Fiscal Position, page 34.

<sup>9</sup> *Ibid.*, page 24.

<sup>10</sup> U.K., *Long-Term Public Finance Report: an Analysis of Fiscal Sustainability*, December 2006, page 19. Available at: [http://www.hm-treasury.gov.uk/pre\\_budget\\_report/prebud\\_pbr06/assoc\\_docs/prebud\\_pbr06\\_adlongterm.cfm](http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/assoc_docs/prebud_pbr06_adlongterm.cfm).

- the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.<sup>11</sup>
- Other terms and measures related to fiscal sustainability  
The U.K.'s 2003 report also presents an explanation and a discussion of the strengths and limitations of several potential measures of fiscal sustainability:
  - "intertemporal budget gap,"
  - "fiscal gap",
  - an alternative fiscal gap, and
  - "generational accounting."
 The relevant chapter, "Forward-Looking Fiscal Sustainability Measures," (Chapter 4) of the U.K.'s 2003 report is attached at Tab 4.

## 1. Major Measurements Presented

### a. Spending and Revenue Projections

#### Australia

"Spending" includes Health and aged care; payments to individuals (includes "pensions" that are similar to U.S. Social Security, unemployment, aid to low-income families with children); education and training; "government superannuation" (civil and military pensions); defense; and environment. "Revenue" includes taxation revenue and non-taxation revenue (sales of goods and services, interest, dividends and petroleum royalties).

#### Canada

Canada issues high-level and very limited reporting: the Department of Finance publishes results of the Sustainable Development Strategy, which includes strategy and progress relating to broad fiscal, social and environmental goals.<sup>12</sup> On a more detailed level, the Office of the Chief Actuary reports on pension-type plans (Canada Pension Plan and Old Age Security), as well as military and civil service retirement, over a 75-year period.<sup>13</sup>

#### New Zealand

Includes "existing policy in spending programmes and revenue"<sup>14</sup> but only projected to 40 years in the future. Many elements (such as demographic trends) are projected further.

<sup>11</sup> U.K., *Long-Term Public Finance Report: an Analysis of Fiscal Sustainability*, December 2006, pages 4-5.

<sup>12</sup> Canada Department of Finance, available at <http://www.fin.gc.ca/toce/2006/sds-dpr06e.html>

<sup>13</sup> Canada, Office of the Chief Actuary, at [http://www.osfi-bsif.gc.ca/osfi/index\\_e.aspx?DetailID=499](http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=499)

<sup>14</sup> New Zealand, *Statement on the Long-Term Fiscal Position*, page 7.



## UK

Long-term projections are based on the assumption of current policy, noting that “This should not be interpreted as meaning that policy will not change over time but it is used so that the long-term projections do not prejudice future Government policy.”<sup>15</sup> The U.K. report also notes that the European Union’s Economic Policy Committee also makes projections based upon current policy.<sup>16</sup>

## b. Dollar Amounts versus Ratios

### Australia

Australia’s report displays financial data primarily as a percentage of GDP. There is also extensive display of non-financial data such as projected life expectancy, birth rate, and net migration rate.

### Canada

Canada’s limited reporting displays financial data primarily as a percentage of GDP.

### New Zealand

New Zealand’s report displays financial data primarily as a percentage of GDP. There is also extensive display of non-financial data such as projected life expectancy, birth rates, and net migration rate.

### U.K.

The U.K.’s report displays financial data primarily as a percentage of GDP. There is also extensive display of non-financial data.

## c. Sensitivity Analysis

### Australia:

Extensive coverage of variations in assumptions include “Alternative Scenarios” for: mortality, fertility, net migration, full-time labor force participation, labor productivity growth, unemployment rate, non-demographic health costs, annual labor force growth, annual real GDP growth, and other assumptions.

### Canada:

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<sup>15</sup> U.K., *Long-Term Public Finance Report: an Analysis of Fiscal Sustainability*, paragraph 4.16, page 29.

<sup>16</sup> Ibid.

Canada's limited report on old-age income security programs has a brief description of assumptions in disability rates only, and a one-page description of two sensitivity tests that were performed.<sup>17</sup>

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<sup>17</sup> *Actuarial Report (22nd) supplementing the Actuarial Report on the Canada Pension Plan*, December 4, 2006, pages 14 and 23.

#### New Zealand:

The report includes an entire chapter (Chapter 4) on demographic and economic assumptions.

#### U.K.:

The report includes an entire chapter (Chapter 4) on assumptions and models used for projections.

### d. Debt Level Targets

Australia	No explicit debt level target. <sup>18</sup>
Canada	Target of 25% by 2013-14 and zero by 2021. <sup>19</sup>
New Zealand	Target: 20% of GDP. <sup>20</sup>
U.K.	Target: below 40% of GDP. <sup>21</sup>

## 2. Frequency of Report

Australia	Every 5 years
Canada	Very limited reporting required every three years.
New Zealand	Every 4 years; related reports annually.
U.K.	Annually

#### Detail:

Australia: The first “Intergenerational Report” was issued in 2002; the second was issued in April 2007.

Canada: Broad, high-level reporting, the results of the Sustainable Development Strategy, which includes broad fiscal, social and environmental goals,<sup>22</sup> is required every three years but generally issued annually.

New Zealand: First issued in 2006. An annual “fiscal strategy” report is required annually.

U.K.: Issued annually.

## 3. Is the Report Mandatory?

Australia	Yes	Required by the <i>Charter of Budget Honesty Act 1998</i>
Canada	Yes	Required by <i>Auditor General Act</i> , as amended in 1995

<sup>18</sup> As of 2007, Australia has eliminated its net national debt and established a “future fund.” However, debt is projected to re-emerge by the mid-2030s and continue to rise rapidly thereafter. Source: *Intergenerational Report 2007*, page 45.

<sup>19</sup> Canada, *Sustainable Development Strategy 2007-2009*, Section 4.1.1. Available at <http://www.fin.gc.ca/toce/2006/sds2007e.html>.

<sup>20</sup> New Zealand, *Statement on the Long-Term Fiscal Position*, page 23.

<sup>21</sup> U.K., *Long-Term Public Finance Report*, December 2006, paragraph 1.11, page 5.

<sup>22</sup> Canada Department of Finance, available at: <http://www.fin.gc.ca/toce/2006/sds-dpr06e.html>

New Zealand	Yes	Required by the <i>Public Finance Act</i> , as amended in 2004
U.K.	Yes	Required by the <i>Finance Bill 1998</i>

#### 4. Is the Report on Fiscal Sustainability Mentioned in the Government's Financial Statements?

Australia	Yes	The Overview of the <i>Treasury Annual Report 2005-2006</i> states that the second <i>Intergenerational Report</i> would be prepared in the coming year. <sup>23</sup> The Performance section lists the <i>Intergenerational Report</i> as a "budget document." <sup>24</sup>
Canada	No	
New Zealand	Yes	The Long-Term Fiscal Strategy is mentioned and described in the "Commentary," which serves as an Introduction, in New Zealand's March 2007 financial statements. <sup>25</sup>
U.K.	N/A*	

\* The U.K. is in the process of preparing its first accrual-based government-wide financial statements (called the "whole of government accounts") this year (2007).<sup>26</sup>

#### 5. Are Accrual-Based Financial Statements Discussed in the Report on Fiscal Sustainability?

Australia	Yes	The report explains that the issue of fiscal sustainability requires government to take a broader view of the balance sheet, and to recognize that many fiscal pressures will arise decades in the future. <sup>27</sup>
Canada	No	
New Zealand	Yes	The report explains GAAP reporting (note 18) and notes that the model used for the report also produces projected GAAP-based expenditures, revenues and balance sheets for future periods. <sup>28</sup>
U.K.	Yes	The report explains the advantages and shortcoming of GAAP-based financial statements in assessing long-term fiscal sustainability. <sup>29</sup>

<sup>23</sup> Australia, *Treasury Annual Report*, "Overview," page 6.

<sup>24</sup> Australia, *Treasury Annual Report*, "Performance Section," page 50.

<sup>25</sup> New Zealand, *Financial Statements of the Government*, March 2007, page 4.

<sup>26</sup> See <http://www.wga.gov.uk/pages/guidance.html>.

<sup>27</sup> Australia, *Intergenerational Report 2007*, page 87.

<sup>28</sup> New Zealand, *Statement on the Long-Term Fiscal Position 2006*, page 33.

<sup>29</sup> See U.K., *Long-term public finance report: an analysis of fiscal sustainability*, December 6, 2006, Chapter 3, "Approaches to Assessing Long-Term Fiscal Sustainability, pages 19-21.

## Bibliography and References

### A. Long-Term Fiscal Sustainability Reports

Australia	Commonwealth of Australia, "Intergenerational Report 2007" issued April 2, 2007. Available at: <a href="http://www.treasury.gov.au/igr/IGR2007.asp">http://www.treasury.gov.au/igr/IGR2007.asp</a> .
Canada	Limited reporting: <ul style="list-style-type: none"> <li>• "Sustainable Development Strategy 2007-2009" Available at: <a href="http://www.fin.gc.ca/toce/2006/sds2007e.html">http://www.fin.gc.ca/toce/2006/sds2007e.html</a>.</li> <li>• Supplementary Document to the 2005-06 Departmental Performance Report (DPR) Regarding Implementation of the 2004-06 Sustainable Development Strategy (SDS). Available at: <a href="http://www.fin.gc.ca/toce/2006/sds-dpr06e.html">http://www.fin.gc.ca/toce/2006/sds-dpr06e.html</a>.</li> <li>• Reporting on the Canada Pension Plan is available at: <a href="http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=499">http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=499</a>.</li> </ul>
New Zealand	Statement on the Long-Term Fiscal Position 2006, available at: <a href="http://www.treasury.govt.nz/longtermfiscalposition/2006/">http://www.treasury.govt.nz/longtermfiscalposition/2006/</a> . Also see New Zealand's "Long Term Fiscal Strategy Report" at: <a href="http://www.treasury.govt.nz/budget2007/fiscalstrategy/">http://www.treasury.govt.nz/budget2007/fiscalstrategy/</a> .
U.K.	Pre-Budget Report, "Long-term public finance report: an analysis of fiscal sustainability," December 6, 2006. Available at: <a href="http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/assoc_docs/prebud_pbr06_adlongterm.cfm">http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/assoc_docs/prebud_pbr06_adlongterm.cfm</a> .

### B. Legislation

Australia	<i>Charter of Budget Honesty Act 1998</i> , available at: <a href="http://scaleplus.law.gov.au/html/pasteact/2/3115/top.htm">http://scaleplus.law.gov.au/html/pasteact/2/3115/top.htm</a> .
Canada	The 1995 amendment to the Auditor General Act requires ministers to prepare Sustainable Development Strategies outlining their departments' objectives and plans for action to further sustainable development, and that the strategies be updated at least once every three years. See Sections 21.1 and 24 (2) of the Auditor General Act, available at: <a href="http://laws.justice.gc.ca/en/ShowFullDoc/cs/A-17///en">http://laws.justice.gc.ca/en/ShowFullDoc/cs/A-17///en</a> . For more limited reporting, Section 115(2) of the Canada Pension Plan requires an actuarial report whenever a bill amending the Plan is introduced in the House of Commons.
New Zealand	Public Finance Amendment Act 2004, available at: <a href="http://www.treasury.govt.nz/pfssm/">http://www.treasury.govt.nz/pfssm/</a> .
U.K.	<i>Finance Bill (No. 2) 1998</i> , available at: <a href="http://archive.treasury.gov.uk/budget/1998/fbill/main.html">http://archive.treasury.gov.uk/budget/1998/fbill/main.html</a> .

### C. Government-Wide Financial Statements

Australia	"Financial Statements" are Part 4 of the Treasury Annual Report, issued by the Treasury of the Australian Government, are available at: <a href="http://www.treasury.gov.au/contentitem.asp?NavId=&amp;ContentID=1175">http://www.treasury.gov.au/contentitem.asp?NavId=&amp;ContentID=1175</a>
Canada	"Public Accounts of Canada," issued by the Receiver General for Canada, are available at: <a href="http://www.pwgsc.gc.ca/recgen/text/pub-acc-e.html">http://www.pwgsc.gc.ca/recgen/text/pub-acc-e.html</a> .
New Zealand	"Financial Statements of the Government," March 2007, issued by the New Zealand Treasury, are available at: <a href="http://www.treasury.govt.nz/financialstatements/month/mar07/default.asp">http://www.treasury.govt.nz/financialstatements/month/mar07/default.asp</a> .
U.K.	N/A. The U.K. is in the process of preparing its first accrual-based government-wide financial statements (called the "whole of government accounts") for the year ending March 31, 2007.







# Attachments

## Tab 1 - Australia

- Speech by Australia's Treasurer: Intergenerational Report
- Intergenerational Report 2007- Overview
- Intergenerational Report 2007 – “At a Glance”
- Intergenerational Report 2007

## Tab 2 - Canada

- Sustainable Development Strategy (SDS) 2007-2009
- Supplementary Document to the Department's 2007-08 Report on Plans and Priorities (RPP) Regarding Implementation of the 2007-09 SDS

## Tab 3 - New Zealand

- New Zealand's Long-Term Fiscal Position 2006
- Paper, “Facing Fiscal Futures” (June 2006)
- Policy Perspectives Paper, Modelling New Zealand's Long-Term Fiscal Position (February 2006)
- Fiscal Strategy Report, May 2007

## Tab 4 - UK

- Long-term public finance report: an analysis of fiscal sustainability (Pre-Budget Paper, December 2006)
- “Forward-Looking Sustainability Measures,” (Chapter 4) of Long-term public finance report: an analysis of fiscal sustainability (Pre-Budget Paper, December 2003)