

The reconciliation of government accounting data and excessive deficit procedure (EDP) balances

The case of EDP table 2
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Accrual principle under GFS/ NA - links to public accounts or budget presentation

- Government Finance Statistics (GFS) play a key role in EU economic monitoring and fiscal policy
- Lack of harmonization of accounting principles currently used (cash, accrual or cash modified accounting) in MS public accounts sources
- Dilemma of statisticians (and accountants):
 - Dealing with different sources in public accounting data?
 - Cash or accrual? And.. .what kind of accrual ?
 - Issue of reconciliation of balances of final accounts which may lead to statistical discrepancies

Quality assessment of the EU GFS statistics

- One of tools used in quality assessment of the EU GFS statistics by Eurostat's GFS Directorate is a bi-annually EDP notification procedure (the spring and autumn)
- The main tables are accompanied by a series of related annex tables that allow several cross checking
- In particular Tables 2 track the link between the so-called working balances (i.e., the public deficit as reported nationally to parliament) and the net lending / net borrowing in ESA 1995 for each sub-sector.

EDP Notification Tables 2

- EDP table 2 starts with working balance; accounting basis explained (**cash, accrual or mixed**)
- Majority of MS on cash basis - Accrual for all or some of General Government subsectors in (i.e.) ES, EE, SE, UK, LT
- Large number of adjustments or relatively few, depending on how close the working balance is to statistical definitions
 - capital transfers, financial leasing, loans, shares and equity, capital injections to public corporations etc. ...
 - and ...arrears, gross fixed capital formation not yet realized, taxes not yet assessed,
 - as well as ...flows which do not give rise to financial adjustments such as accruals, provisions, gains and losses, etc.
- One of the main adjustments in the table relates to accruals time of recording

Typical presentation of the reconciliation in EDP table 2

Working Balance
Exclusion of financial transactions included in the working balance;
Inclusion of non-financial transactions not included in the working balance;
Adjustments for sector delimitation;
Time of recording (transition to ESA95 based accrual recording);
Other adjustments (e.g. imputations following ESA95 methodology).
= EDP government net borrowing/net lending

- Current set of tables developed by Eurostat for the cash based systems and could be usefully revised if MSs shift to accrual in primary sources.
- Alternatively could start from pure cash movements in Member States accounts (cash flow reconciliation) , but complicated by debt transactions

The Case of Spain

Table 2A: Provision of the data which explain the transition between the public accounts budget balance and the central government deficit/surplus

Member state: SPAIN	Year					
Data are in millions of Euros	2008	2009	2010	2011	2012	
Date: 28/09/2012						
Working balance in central government accounts	-24,164	-69,345	-39,180	-41,572	-20,439	Balance of non-financial budget operations of the "State"
<i>Basis of the working balance</i>	accrual	accrual	accrual	accrual	accrual	Accrual for most operations
Financial transactions included in the working balance	0	0	0	0	0	
Loans, granted (+)	m	m	m	m	m	
Loans, repayments (-)	m	m	m	m	m	
Equities, acquisition (+)	m	m	m	m	m	
Equities, sales (-)	m	m	m	m	m	
Other financial transactions (+/-)	0	0	0	0	0	
of which: transactions in debt liabilities (+/-)	0	0	0	0	0	
Detail 1	0	0	0	0	0	Capital gains of the Central Bank
Detail 2						
Non-financial transactions not included in the working balance	5,656	-6,498	-3,138	-3,196	1,261	
Detail 1	-1,740	-1,503	-949	-302	-135	FAD Operations
Detail 2	8,000	-5,440	-1,203	-899	-200	Local Investment Fund
Detail 3	43	372	-152	-179	-193	Others funds which are not institutional units
Detail 4	-445	73	-834	-1,816	1,789	Others non financial operation not considered in the budget of the year
Difference between interest paid (+) and accrued (EDP D.41)(-)	-708	-3,313	203	-838	-2,534	
Other accounts receivable (+)	-2,912	57	180	-1,072	186	
Detail 1	-2,912	57	180	-1,072	186	Temporal adjustment in taxes
Detail 2						
Other accounts payable (-)	m	m	m	m	m	
Detail 1						
Detail 2						
Working balance (+/-) of entities not part of central government	m	m	m	m	m	
Net borrowing (-) or net lending (+) of other central government bodies	218	1,139	-1,132	-4,848	-9,868	
Detail 1	17,165	18,121	19,174	18,694		Revenue
Detail 2	-17,727	-18,134	-19,426	-18,753		Expenditure
Detail 3	780	1,152	-880	-4,889		Adjustments
Other adjustments (+/-) (please detail)	-11,244	-19,971	-9,673	14,899	-15,004	
Detail 1	-6,011	-4,242	-2,051	-3,251	-1,413	Capital injection into public corporations and others
Detail 2	-5,603	-8,124	-8,785	-8,278	-8,470	Cancellation of taxes and others
Detail 3	243	182	187	219	100	Export insurance guaranteed by the State
Detail 4	-256	-358	-549	-181	-329	Re-routed items relating to SEPI
Detail 5	-343	-545	-1,259	-1,251	598	Military equipment expenditure
Detail 6	-80	-31	-50	-67	-50	Expenditure for producing coins
Detail 7	2,408	-4,667	5,912	29,044	-4,557	Advances to Comunidades Autónomas and Corporaciones Locales
Detail 8	-1,520	-1,306	-1,189	-770	-25	Reclassification of loans
Detail 9	-82	-882	-1,889	-566	-1,458	Others adjustments
Net borrowing (-)/lending(+) (EDP B.9) of central government (S.1311)	-32,952	-87,931	-52,740	-36,527	-47,096	

(ESA 95 accounts)

(1) Please indicate accounting basis of the working balance: cash, accrual, mixed, other.

Note: Member States can adapt tables 2A, B, C and D to their national specificity according to the established practice

- Accrual accounting during the 90s on central and state level (IPSAS similar)
- Lines related to non-financial transactions, coverage of extrabudgetary-units and other adjustments
- ..But...Temporal adjustments for taxes

A possible structure of adjustments for EDP Table 2 under full accruals working balance

Working Balance	Description of adjustment
Coverage effects	Add IPSAS-basis (or other) data for bodies not in working balance. Remove consolidation impacts not corresponding to the GG sector boundary
Revaluation effects	Remove all holding gain/loss data from working balance
Provisions and reserves	Remove movements in provisions and reserves. Add actual expenditure, or debt cancellation/assumption data, associated with these provisions and reserves
Net accruals adjustment for taxes	Remove any accruals/cancellation impacts for taxes and add time-adjustment impact (if used)
Net pensions adjustment	Remove any accrued pension costs (actuarial impacts) and add pensions paid
Accruals interest	Accrue interest if necessary, or adjust for specific instruments where the approach differs
Investment expenditure	Remove depreciation and add accrued GFCF expenditure
Military expenditure	Adjust accounting data to delivery approach
Swaps	Implementing the EDP treatment of swaps (may disappear with ESA 2010)
Inventories	Revalue inventories to current price approach
Other timing adjustments	Any other timing differences between IPSAS and ESA
Other adjustments (specific etc)	Miscellaneous adjustments, including for example re-routed transactions and capital transfers for capital injections considered non-financial transactions, etc
Other accrual adjustments	Transactions which may not be fully recorded on an accrual basis because of the information available and the lack of a reliable information for such accrual treatment at the moment of the notification

A possible new template of EDP table 2?

Table 2A: Provision of the data which explain the transition between the public accounts budget balance and the central government deficit/surplus

Member state: XXXX Data are in ... (millions of units of national currency) Date: XX/XX/2011	2007	2008	Year 2009	2010	2011
Working balance in central government accounts					
<i>Basis of the working balance</i>	accrual	accrual	accrual	accrual	accrual
Adjustments for entities not corresponding to the GG sector boundary					
of which: revenue					
of which: expenditure					
Holding gains/losses					
Detail 1					
Detail 2					
Non-financial transactions not included in the working balance					
Gross fixed capital formation (investments)					
Investments grants and capital transfers					
Adjustments to ESA 95 / EDP (+/-)					
Military expenditure					
Provisions and reserves					
Debt cancellation/debt assumption					
Net accruals adjustment for taxes (accruals, cancellation of axes)					
Net pensions adjustment					
Depreciation					
Imputed capital formation associated with financial leasing agreement					
Rents of financial leases included in the working balance					
Reclassification of loans					
Capital injections (financial transaction classified as capital transfers)					
Inventories revaluation					
PPP assets reclassification					
Swaps					
Guarantee called					
UMTS licences					
Securitisation					
Superdividend					
Other adjustments (specific ,etc)					
Accrued interest adjustments (where necessary) (EDP D.41)					
Detail 1					
Detail 2					
Adjustment for taxes resulting from time -adjusted method					
Detail 1					
Detail 2					
Adjustments for differences in accrual recording					
Detail 1					
Detail 2					
Other adjustments					
Detail 1					
Detail 2					
Net borrowing (-)/lending(+) (EDP B.9) of central government (S.1311)					

(ESA 95 accounts)

Comments and views welcomed

Thank you for your attention