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The reconciliation of the primary accounting data for government entities and the balances according to statistical measures: the case of Excessive Deficit Procedure Table 2

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1. Background

Fiscal policy in the European Union (EU) - notably the Excessive Deficit Procedure (EDP) - relies on statistical measures to ensure comparable data between Member States. The statistical measures for deficit and debt derive from the European System of Accounts (ESA), itself a European legal act. The ESA is almost fully consistent with the worldwide System of National Accounts, and is an accruals-based system complete with balance sheets and flow accounts in a complete and consistent system.

Since public accounting systems in EU Member States are very heterogeneous, both between countries and within countries (at different levels of government or for different types of bodies), statisticians must take source data from these accounting systems and make appropriate adjustments to reach harmonised statistical measures.

The scope and size of these adjustments are highly dependent on the underlying public accounting system, and notably if this system is based on accruals or cash-based principles (or something in between).

In order to provide a clear link between public accounting and statistical data used for EU fiscal policy, EU Member States are required to transmit reconciliation tables to Eurostat twice per year, as part of a package of reported information which allows Eurostat to assess the quality of key aggregates such as deficit and debt. These reconciliation tables are known as "EDP Tables 2" (divided by sub-sector of government into 2A, 2B, 2C and 2D), and they formally provide the link between the so-called working balances (i.e., the public deficit as reported nationally to parliaments and ideally audited) and the net lending / net borrowing in ESA 1995 for each sub-sector.

These tables thereby provide a structured link between public accounting data and government finance statistics data, and can therefore be useful to illustrate the passage for different types of public accounting. Whilst the tables were largely starting from cash-based public accounts when they were first designed in the early 1990s, the growing adoption of public accruals accounting in the EU means that the nature of the required adjustments has been changing. This document analyses EDP tables 2, and examines what types of adjustments would be necessary if the starting point were to be a fully accrual-based system, for example IPSAS.

2. The current reconciliation in EDP tables 2 to move from working balance to EDP deficit

The starting point of this table is the working balance, as described above. Countries are required to describe if the accounting basis is **cash, accrual or mixed**.

Proceeding from this, the table may contain a large number of entries or relatively few, depending on how close the working balance is to statistical definitions. Countries using cash accounting in their working balance sheets generally have a larger number of adjustments, and as the working balance becomes more sophisticated (accruals, mixed, etc.) the number of entries may be lower, concentrating on different blocks of the reconciliation scheme.

Two examples of tables may be seen here :

EDP table 2A for Italy (Central government sector) as part of its October notification for the year 2012

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

Member state: Italy Data are in ... (millions of units of national currency) Date: 12/10/2012	2008	2009	Year 2010	2011	2012	
Working balance in central government accounts	-53,864	-85,202	-67,675	-62,620	-46,000	
<i>Basis of the working balance</i>	<i>cash</i>	<i>cash</i>	<i>cash</i>	<i>cash</i>		
Financial transactions included in the working balance	8,303	14,389	2,483	4,444	7,540	
Loans, granted (+)	10,309	1,870	5,417	7,893	2,237	
Loans, repayments (-)	-1,573	-2,219	-2,402	-2,013	-2,068	
Equities, acquisition (+)	45	4,080	28	18	7,200	
Equities, sales (-)	0	0	0	0	0	
Other financial transactions (+/-)	-538	10,658	-560	-1,454	201	
of which: transactions in debt liabilities (+/-)	0	0	0	0	0	
Detail 1						
Detail 2						
Non-financial transactions not included in the working balance	0	0	0	0	L	
Detail 1						
Detail 2						
Difference between interest paid (+) and accrued (EDP D.41)(-)	485	-1,102	-2,303	-2,464	L	
Other accounts receivable (+)	1,685	1,447	-488	1,486	L	
Detail 1						
Detail 2						
Other accounts payable (-)	2,134	-1,582	2,229	-498	L	
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	M	M	M	M	M	
Detail 1						
Detail 2						
Other adjustments (+/-) (please detail)	205	-736	-482	-65	L	
Detail 1	-123	-47	0	0	L	Building securitisations and other building sales (Real Estate Fund) classified in table 2D
Detail 2	-40	-70	-37	-173	L	Cancellations of foreign debts
Detail 3	-19	-108	-138	-394	L	Additional cancellations - Paris Club (reouted via Government)
Detail 4	-21	-12	-23	-30	L	Reclassification of revenues of uncompleted securities
Detail 5	-674	-598	-159	-175	L	Reclassification of revenues classified in dormant accounts
Detail 6	-5	-62	-61	-72	L	Guarantees called
Detail 7	704	175	-452	-200	L	Eurostat Decision 31.07.2012 - reclassification of trade credits (F71) related to factoring without recourse with OFIs and MFIs in public debt instruments (F4)
Detail 8	383	-14	388	989	L	Statistical discrepancy
Net borrowing (-)/lending(+) (EDP B.9) of central government (S.1311) (ESA 95 accounts)	-41,042	-72,786	-66,215	-59,907	-38,651	

(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

The table shows Italy's need to correct the working balance (which is cash-based) for financial transactions, time of recording which lead to adjustments on both interest and other accounts, and there are also other adjustments for specific government transactions. Some statistical discrepancies nevertheless remain unexplained.

As a comparative example we could examine the case of Spain, which introduced accruals-based accounting during the 1990s at Central and State levels, and where State government accounting standards appear to be close to IPSAS. The example shows that the table 2 for Spain does not include lines related to debt transactions but makes more use of lines related to non-financial transactions, coverage of extrabudgetary-units and other adjustments. Temporal adjustments for taxes are also made, though there are no other accruals adjustments.

EDP table 2A for Spain (Central government sector) as part of its October notification for the year 2012

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	5,858	-6,498	-3,138	-3,190	1,281	
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	-638	-2,634	
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	-4,948	-9,966	
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	-15,604	
Detail 1	-6,011	-4,242	-2,051	-3,251	-1,413	Capital injection into a 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	-356	-549	-181	-329	Re-routed items relating to SEPI
Detail 5	-343	-545	-1,259	-1,251	588	Military equipment expenditure
Detail 6	-80	-31	-50	-67	-50	Expenditure for producing coins
Detail 7	2,408	-4,667	5,312	29,044	-4,557	Advances to Comunitades Autonomas 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)	-32,852	-97,931	-52,740	-36,527	-47,696	
<i>(ESA 95 accounts)</i>						

(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

The overall relationship between the working balance and EDP deficit in EDP table 2 is shown in the box below:

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

The table below shows the impact in percent of GDP for the last 4 years of the sum of all the types of adjustments needed for the central government sector in countries.

Table 1 - Total adjustments to reconcile Working balance and EDP Deficit /Surplus in percent of GDP - Central Government Sector

	2008	2009	2010	2011
Belgium	-5,7%	1,5%	0,0%	-1,1%
Bulgaria	0,6%	2,5%	-0,3%	-0,1%
Czech Republic	2,1%	0,0%	0,1%	-1,2%
Denmark	0,4%	0,1%	-2,7%	0,0%
Germany	0,0%	-0,7%	1,2%	0,6%
Estonia	0,7%	0,1%	0,7%	1,9%
Ireland	-0,3%	-2,9%	18,4%	-2,3%
Greece	3,7%	2,0%	3,1%	-1,9%
Spain	0,8%	2,7%	1,3%	-0,5%
France	0,6%	-0,9%	-1,9%	0,0%
Italy	-0,8%	-0,8%	-0,1%	-0,2%
Cyprus	-4,1%	-3,3%	-3,2%	4,5%
Latvia	1,9%	-0,9%	-1,8%	-1,0%
Lithuania	0,9%	1,5%	-0,2%	0,7%
Luxembourg	0,4%	0,5%	4,8%	1,5%
Hungary	0,2%	0,9%	0,4%	-9,8%
Malta	0,6%	-1,2%	-0,9%	-0,6%
Netherlands	-15,1%	5,2%	-0,4%	-0,8%
Austria	-2,3%	0,6%	0,7%	0,9%
Poland	2,0%	3,7%	2,5%	1,8%
Portugal	0,8%	0,2%	0,0%	-3,8%
Romania	0,7%	0,0%	-0,9%	0,2%
Slovenia	1,4%	0,2%	0,1%	2,1%
Slovakia	1,4%	2,4%	0,0%	0,6%
Finland	-0,2%	-0,9%	-0,6%	-0,8%
Sweden	2,9%	-5,1%	0,0%	1,8%
United Kingdom	0,0%	0,1%	0,0%	-0,2%

It should be noted that, even in countries which use the accrual principle, the public accounting procedure required to acknowledge the rights or obligations for the point of accrual may not be the same as that in statistics and therefore differences in accrual implementation may arise. This may notably be the case for interest payments and taxes, and leads to specific entries in EDP table 2 for such accruals adjustments.

As mentioned above, these tables were designed with a cash-based public accounting system in mind. The section below makes a preliminary analysis of how the tables may have been structured if a full accruals-based system, such as IPSAS, had been in place. Such a structure would likely be more useful for users in this case and also for Eurostat when it carries out its verification work.

It may be noted that another option would have been to start from pure cash movements in all Member States, thereby creating a kind of cash-flow reconciliation to a statistical balance. The existing table structure would be robust enough to accommodate that, but would likely have more entries than currently because it could involve adjustments for debt-related transactions that are normally excluded from most cash-based accounting systems.

3. The reconciliation of the balances in final accounts under accrual IPSAS: a theoretical exercise

As described in several presentations for accruals symposiums, there is a growing adoption of accruals-based accounting in Europe. Eurostat has been undertaking a study on the suitability of IPSASs for EU Member States.

The following analysis represents a purely theoretical exercise to show the possible issues to resolve in EDP Table 2 if full accrual (for example IPSAS) standards were to be applied in an EU Member State, notably how the structure of the table could be revised to show an ordered reconciliation of the transactions recorded under accruals accounting with the transactions under ESA principles.

The necessary reconciliations /adjustments might be grouped around the following major items:

- The corrections needed for the completing the budgeting procedure under a full accrual basis
- The corrections needed for reconcile the accruals accounting with the ESA principle.

Where the working balance (public accounting balance) is compiled under a cash basis (for example for Italy) the primary impact on Table 2 from adopting accrual, for example under IPSAS, would be to reconsider all the existing lines related to:

- v Elimination of financial transactions
- v corrections for time of recording
- v Other adjustments, including if any off-budget treasury operations
- v Elimination of the working balance of institutional units mainly engaged in market activities (i.e. public corporations and quasi-corporations) which are not included in the national accounts definition of government and therefore should not affect government net lending/borrowing, as defined by ESA (and which have not already been adjusted in other item of reconciliation of Table 2A). It is to be noted that this elimination should be made carefully since in fact many “extra-budgetary” units may already be using IFRS-type accounting, and therefore the statisticians are already implicitly converting these to ESA concepts anyway, though the adjustments are not shown.

As a good starting point, the IPSASB Consultation Paper on GFS/IPSAS lists and analyses the “Differences between IPSASs and GFS Reporting Guidelines” some of which deriving from conceptual differences¹.

¹ “IPSASs and Government Finance Statistics” *Consultation Paper - IPSASB October 2012* - lists the issue of differences between GFS reporting guidelines and IPSASs for consideration by either the IPSASB or the statistical community. <https://www.ifac.org/publications-resources/ipsass-and-government-finance-statistics-reporting-guidelines>

Analyzing the differences with the view of EDP Table 2, the main adjustment groups could be described as listed in the following table:

Working Balance	<i>Description of adjustment</i>
Coverage effects	Add IPSAS-basis (or other) data for bodies not in working balance. Remove consolidation impacts not corresponding to the GG sector boundary ²
Revaluation effects	Remove all holding gain/loss data from
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
Accrued 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

² In fact IPSAS22 already provides a framework for the use of the general government boundary, however it does not appear to be fully used by any jurisdiction, and is under review as part of the IPSAS Board's IPSAS/GFS project.

Close attention should be paid to each of these elements to achieve a better reconciliation. Ideally no adjustments/corrections would be needed if the economic events and transactions were treated according to a common conceptual framework and implementation process; on the other hand it is commonly accepted that those events might be regarded in a different perspective by accountants and statisticians, due to the different aims of the analyses and the following descriptions they provide: respectively performance, citizens satisfaction and management of resources by the entities and macroeconomic measurement of uses and resources with production, income distribution and redistribution, and saving in all the sectors of the economy, fiscal sustainability and estimation of budgetary position under excessive deficits and debts procedure.

However, the different points of view do not exclude each other, but rather appear to be closely complementary. The practical question remains to what extent single entities may produce a unique set of data designed to serve both perspectives, and the costs of doing so.

If ones works from the perspective of reconciling a working balance to an EDP deficit, the next step would be to see if a common chart of accounts could handle all the above financial flows, commitments and payments, which are not accrued expenditure and revenue, i.e arrears of appropriation, payments of loans, gross fixed capital formation not yet realized, taxes not yet assessed, as well as flows that give rise to non- financial adjustments such as accruals, provisions for future expenditure or for predictable risks, gains and losses, etc.

The work can then be completed with the adoption of a taxonomy for all the items in the chart of accounts which allows the reclassification of the various items, expenditure and revenue, payments and receipts under international accounting standards according to the statistical reporting framework³.

³ According the IPSAS/GFS CP :...."in case of adoption of accrual IPSAS the chart of account could be designed in a way that the same accrual based harmonized information system that generates data for a government's financial statements can generate most of the data necessary for the government's statistical reports"

Annex 1: List of differences between IPSASs and GFS Reporting Guidelines for consideration by either the IPSASB or the statistical community

1. Scope of consolidation (GG versus Public sector)
2. Principle of accounting basis: cash, cash modified reporting/versus Accrual; Single- entry /versus double-entry book-keeping
3. Percentage of coverage of variables in Financial Statements according IPSAS structure
4. Principle of measurement notably for property and equipment, equity, liabilities (Fair value versus historic cost) [According ESA sources used to compile financial transactions and debt provide information valued at nominal value]
5. Inventory measurement: IPSAS require measurement at “the lower of cost and net realizable value” where ESA requires market value
6. Recording of borrowing cost / interest capitalization
7. Cash modified accounting practice in MS for taxes versus accrual basis of taxes
8. Impairment of assets
9. Amounts recognized as a provision
10. Holding gain /losses; Investments in unquoted shares: Presentation of re measurement gains/losses
11. Gross Fixed Capital Formation and depreciation
12. Treatment of debt cancellation/debt assumption (Recognition and derecognition of financial instruments)
13. Nonperforming loans
14. Advance payments on goods, defense equipment, and services recognized as expenses rather than transactions
15. Defense equipment that satisfies the accounting criteria defined are not capitalized.
16. Premiums and discounts on treasury bonds netted and recorded as expenses or reductions in expenses (Interest, premium, discount)
17. Prior period adjustments/back casting – correction of errors under IPSAS/versus NA time series adjustments
18. Transaction costs: Costs of disposing of non-financial and financial assets (Decommissioning/ restoration costs in disposal of assets)
19. Distributions receivable from controlled entities (superdividends treatment under ESA)
20. Contributions from owners, for commercial government operations (capital injections treatment under ESA)
21. Recording for Public private partnerships (PPPs)
22. Currency on issue/seigniorage
23. Subscriptions to international organizations
24. Treatment of contract leases and licenses for extractive industries exploration & evaluation; development & production
25. Costs associated with R&D and other intangible assets
26. Low-interest and interest-free loans
27. Recognition criteria for example(for certain types of provisions expenses related to nonperforming loans)
28. Provisions arising from constructive obligations
29. Biological assets (living animals and plants)
30. Net assets/equity
31. Transactions between the Central Bank and government entities.
32. 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

References

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