



New South Wales
TREASURY

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007

Contact: B. Richardson
Telephone: (02) 9228 4832
Our Reference:
Doc #:
Your Reference:

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E-mail: standard@asb.gov.au

Dear Mr Stevenson

AASB ITC 22 Request for Comment on IPSASB Consultation Paper
Reporting on the Long-Term Sustainability of Public Finances

New South Wales Treasury welcomes the opportunity to provide comments on the above invitation to comment.

NSW Treasury supports the IPSASB project, although we do not believe it should be of high priority to the IPSASB because of other linked ongoing public sector projects; e.g. the Conceptual Framework project.

Moreover, there is considerable debate as to whether long-term sustainability information belongs within general purpose financial reports (GPFRs). NSW Treasury believes this information should be presented outside GPFRs.

Our detailed views in relation to the matters raised in the invitation to comment follow.

Yours sincerely

Robert Williams
for Secretary

**New South Wales Treasury response to ITC 22 IPSASB Consultation Paper
*Reporting on the Long-Term Sustainability of Public Finances (LTFSI)***

General Comments

Although we support the project, NSW Treasury does not believe it should be given high priority by the IPSASB while there are other current projects we deem more important for the public sector; e.g. the Conceptual Framework project.

Moreover, there is considerable debate whether or not long-term sustainability information should be included in general purpose financial reports (GPFs). NSW Treasury believes this information does not fall within GPFs. We provide further comments in this regard below.

Detailed Comments

- 1. The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).**

NSW Treasury believes the information is *useful*, but does not agree that it is *necessary* to meet financial reporting objectives. We disagree with the view in paragraph 3.2.3 that GPFs are inadequate without LTFSI.

While the concept of what is included in GPFs will evolve, it is not realistic or desirable for GPFs to provide *all* information that is useful for accountability and decision-making purposes.

General purpose financial statements (GPFs) are historical in nature and focus primarily on past events. GPFs support the information in the GPFs and often include at least some prospective information, usually related to the near-term future.

LTFSI, on the other hand, is primarily economic, statistical and demographic data projected into the medium or long-term, sometimes up to 75 years into the future. NSW Treasury believes this information extends the GPF information but is not necessary for GPFs to be complete.

Moreover, NSW Treasury notes that IPSASB acknowledges in paragraph 2.3.1 that "there is still considerable debate on (a) the type and format of information that should be referred to as GPFs, and GPFs and (b) the demarcation lines between GPFs, GPFs and other information".

2. IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through:

- **Additional statements providing details of projections; or**
- **Summarized projections in narrative reporting (Section Three).**

NSW Treasury does not believe that LTFSI fits into GPFs. It is not part of GPFs, nor is it 'prospective financial material' ('Additional Information' within GPFs in Exhibit Two on page 15), because LTFSI is much broader than 'prospective financial material'.

NSW Treasury believes that LTFSI belongs in the 'Other Information' report category, outlined in the Consultation Paper Exhibit Two on page 15, as it provides economic, statistical and demographic data. The 'Other Information' category is not within GPFs. It is within the IPSASB overall 'Information Useful as Input to Assessments of Accountability and for Resource Allocation and Other Decisions' reporting framework. In this instance, Model Three, which has been rejected by the IPSASB, would be the best approach for disclosing this type of information. NSW Treasury recommends that LTFSI should be presented by cross-references in GPFs to other reports addressing LTFSI (Model Three in the Consultation Paper).

3. IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).

NSW Treasury agrees the guidance should be based on the reporting entity concept and should provide guidance for consolidated financial reports presented by all levels of government.

We see no reason to limit the guidance to national governments. Moreover, we understand that fiscal sustainability reporting already exists at sub-national levels.

As to whether the reports should be consolidated financial reports or financial reports of individual entities, NSW Treasury agrees with paragraph 4.4.2 of the Consultation Paper that:

"In general, it seems questionable whether the cost of producing reports.....by individual entities within the economic entity, is likely to justify the benefits to users...."

4. IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).

NSW Treasury agrees with IPSASB that general principles (points (a) to (c) above), rather than a uniform set of indicators, should be recommended. We also agree that comparatives and reasons for ceasing to report indicators should be provided.

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

- **Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;**
- **The basis on which projections of inflows from taxation and other material revenue sources have been made;**
- **Any other key assumptions underpinning long-term fiscal sustainability projections; and**
- **Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).**

NSW Treasury agrees.

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

- **Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;**
- **Discount rates, together with the reason for their selection;**
- **Results of key sensitivity analyses; and**
- **Steps taken to ensure that projections are reliable (Section Seven).**

NSW Treasury agrees. We also believe that information on discount rates should disclose the methods of discounting used.

7. IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).

NSW Treasury agrees with paragraph 7.6.3 of the Consultation Paper that there are risks to the relevance of LTFSI if it has not been prepared and updated within five years of the reporting date. We also agree with disclosing the date of preparation or update.

AASB Specific Matters for Comment

- 1. Do you agree with the IPSASB's view that reporting information on the long-term sustainability of public finances belongs within the scope of general purpose financial reports? Please provide the reason(s) for your view.**

No. NSW Treasury believes the information is best reported outside the general purpose financial reports (GPFRs).

Exhibit Two on page 15 of the Consultation Paper shows that GPFRs include the general purpose financial statements (GPFSS) and additional information. The additional information may include non-financial, prospective financial, compliance and additional explanatory material. The long-term sustainability information is clearly not part of GPFSSs which focus on past history, nor do we believe it should be included within additional information. Long-term sustainability information provides economic, statistical and demographic data, which is much broader than prospective financial information. We believe it best fits in the 'Other Information' category which is not within GPFRs.

- 2. For entities that presently report information on the long-term sustainability of public finances, regardless of how often, how would applying the IPSASB's proposals affect present practice?**

Not presently applicable to NSW public sector.

- 3. The AASB would particularly value comments on whether:**

- (a) there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals;**

The proposal is to issue guidance; therefore NSW Treasury believes there should not be any regulatory issues that might affect implementation of the proposals.

- (b) overall, the proposals would result in financial information that would be useful to users; and**

NSW Treasury believes the information would be useful to users.

- (c) the proposals are in the best interests of the Australian and New Zealand economies.**

The proposals are in the best interests of the Australian economy. No comment re New Zealand.