Government accounting, EPSAS and supporting the COVID-19 response

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Executive summary

All governments in the EU have undertaken swift, wide-ranging and substantial actions in recent weeks to respond to the social and economic challenges stemming from the COVID-19 pandemic. Such actions include drastic increases in the levels of public sector spending, much of it to support the private sector. Combined with reductions in receipts from taxation, this amplifies the pressure on public sector budgets, but also brings some new challenges, for example, how to ensure that the funds spent have been properly used and how to assess the effectiveness of the measures taken.

More than ever, high-quality information is needed for effective policymaking and financial planning. Greater transparency and comparability are also needed to underpin informed debate on the use of public money. This is a key feature of democratic accountability.

Government accounting in Europe is however, too often, characterised by shortcomings and a lack of comparability. This is because of the absence of a harmonised European government accounting framework, unlike what exists for private companies. The EU recognised the relevance of harmonised accruals-based accounting when it adopted the budgetary framework directive of 2011. Over the last years, some important preparatory steps have been made by Eurostat, in cooperation with the Member States, towards comprehensive government accounting reforms and several countries have also made important steps forward. During this period, there has been considerable debate within (Member State) specialist and broader stakeholder circles.

This paper illustrates how governments can benefit from moving to a harmonised set of accruals-based accounting standards, EPSAS (European Public Sector Accounting Standards), inspired by IPSAS (International Public Sector Accounting Standards). Information that is produced in a consistent manner is made more accessible and comparable within and across Member States. Accruals-based financial reports are designed to provide a comprehensive picture of the financial impact of any public sector measures, including the responses to the COVID-19 pandemic, ranging from short-term fiscal exemptions to long-term monetary policy instruments, in an understandable and user-friendly format, comparable with private sector accounts.

The paper identifies four categories of measures in response to the COVID-19 crisis:

- direct government expenditure,
- tax-related measures,
- support for businesses,
- support for financial systems.

It also analyses the benefits that EPSAS can bring, for the measures classified in each of the four categories, in terms of transparent reporting of the financial impact of the COVID-19 measures, making governments accountable for their decisions, and as a support to the decision making to enable better public finance management and a better use of public money.

Such benefits include:

- The production of relevant and reliable information that can be used to assess achievement by a government of its service delivery objective.
- Optimal asset management as reporting assets on their balance sheet forces governments to make conscious decisions on how best to use these assets.
- Comprehensive reporting of government (long-term) liabilities, reflecting the substance of the transactions, and of the risks associated with these liabilities, therefore contributing to the assessment of the long-term sustainability of public finances.
- Comprehensive and timely reporting of tax revenue, which is also a key element to assess the long-term sustainability of public finances.
- Reporting on how and to what extent grants given are effectively used by the beneficiary, enhancing transparency and accountability.
- Proper reporting and measurement of the risks involved with financial guarantees given.
- Reporting of the financial implications of equity investments, based on the level of control over the entity in which the government has invested.
- Reporting of the financial consequences of the granting of loans to a variety of stakeholders, potentially at favourable conditions.
- Nurturing the political debate between decision makers about the long-term financial impact of the social, environmental or other policies to be implemented, bringing the element of intergenerational fairness at the heart of the political decisions.

EPSAS would be an enabler. Governments and their stakeholders need to understand the full, long-term economic impact of their decisions on financial performance, financial position and cash flows. Transparent accrual-based financial statements reflect the true long-term implication of political decisions and therefore help governments to demonstrate, and users to evaluate, accountability for the use of public funds. A single set of harmonised accrual accounting standards (EPSAS) also enables comparability within and across governments in the EU, creating a foundation for greater accountability and trust between Member States. Furthermore, it enhances the quality of the data on which statistical reporting is based, and consequently improves budget surveillance and fiscal monitoring at macro level.

Finally, adoption of high-quality accrual accounting also lays the basis for developing better management information systems, which should in turn contribute to better decision making and a better use of public money. Performance management should help governments to measure the achievement of their service delivery objectives and in doing so add value for citizens. The end goal is to deliver a better public service and to achieve sustainable public finances, therefore creating a positive legacy for the next generation.

Introduction

The COVID-19 crisis has resulted in the most rapid deployment of government financial resources, through a range of programmes of support to both individuals and businesses. In many cases, the rapid response programmes for the payment of social benefits and to support businesses have required a relaxation over the normal control processes. Some of the measures may also have long-term implications, such as government investment in businesses in distress, the granting of long-term loans or financial guarantees putting governments at risk if the debtor defaults. Increased government spending may also affect their capacity to meet their social, environmental or financial obligations in the future, bringing to the table the question of the long-term sustainability of public finances.

Governments are facing substantial pressure, in many cases, due to the increase of the already high levels of public debt and the need to find new sources of funding, including possible increases in taxation, to meet their public services obligations and the needs in infrastructure investments. Citizens will also demand evidence that funds used during the COVID-19 crisis have been appropriately used and that their government has a long-term plan to manage the challenges ahead.

More than ever, governments must make the right choices based on relevant and insightful information. Robust and modern information systems are needed to support scrutiny of government spending and government ability to take the right decisions between a range of short-term and long-term measures.

With the unprecedented significant amounts of public funding being deployed, citizens also need transparent and comparable reporting about the financial implications of the measures that are taken by governments to hold them accountable for their decisions.

The present paper shows how the use of harmonised EPSAS (European Public Sector Accounting Standards) in the EU would support greater transparency, greater democratic accountability as well as better public finance management, in relation to the government COVID-19 measures.

This paper is structured around the following sections:

- Overview of the main types of public programs in response to the COVID-19 crisis.
- EPSAS as a support of government COVID-19 measures.
- Wider public finance management considerations.

Overview of the main types of public programs in response to the COVID-19 crisis

Various publications summarise and analyse public response programs from different angles. As the COVID-19 pandemic continues to evolve, we expect further developments in the nature and extent of the government support provided by Member States and EU institutions.

The following publications were found to be particularly interesting for the purpose of this analysis:

- The staff of the IPSAS Board (IPSASB) published a Questions and Answers (Q&A) document that provides insights into the financial reporting issues associated with COVID-19 government responses, and points to the relevant IPSAS and other guidance already available[1].
- The European Commission (Directorate-General for Economic and Financial Affairs - DG ECFIN) recently issued and regularly keeps up to date a publication that provides a comprehensive list of measures taken by each of the countries in the European Union, to fight the economic effects of the COVID-19 pandemic[2].

Government interventions can be categorised in various ways, and in a number of cases, interrelations may exist between various programs. The classification used in this paper is inevitably only one of many possible options that might be used and is not intended as an exhaustive inventory of all the measures that are taken[3]. With that in mind, government interventions are divided into four categories.

[1] IPSASB staff questions & answers, COVID-19: relevant IPSASB accounting guidance, April 2020, 8 Pages. https://www.ipsasb.org/publications/covid-19-relevant-ipsasb-accounting-guidance

[2] European Commission, Directorate-General Economic and Financial Affairs (DG-ECFIN), Policy measures taken against the spread and impact of the coronavirus, 14 May 2020, 82 pages. https://ec.europa.eu/info/sites/info/files/coronavirus_policy_measures_14_may.pdf

[3] For an up-to-date list of government measures taken in EU Member States to mitigate the impact of the COVID-19 crisis, we refer to the DG ECFIN publication referred to above.

Direct government expenditure

Increases in access to social benefits:

- Income support
- Unemployment benefits

Limiting the spread of COVID-19 through testing, provision of protective equipment

Tax-related measures

Delays to tax payment deadlines and similar measures

Support for businesses

Grants

Loans (on favourable conditions)

Equity and quasi-equity investments

Public guarantee schemes

Support for financial systems

Repurchasing bonds and other asset-backed securities

Lowering interest rates

The next chapter examines, for each of the four categories of measures, how a harmonised and comprehensive set of modern government accounting rules in the EU, inspired by international best practices, can support an efficient management and allocation of current and future public financial resources as well as transparent reporting thereof as part of the democratic accountability process.

EPSAS as a support of government COVID-19 measures

Direct government expenditure

Governments across the EU have increased the transfer of resources to help the society limit the public health and economic consequences of the COVID-19 pandemic.

Measure 1: Increases in access to social benefits

Income of individuals has largely been supported by EU governments through measures that have facilitated the access to social benefits:

- Increase in unemployment benefits

  Several countries have taken measures to extend and increase the access to unemployment benefits. Examples include providing unemployment benefits to unemployed people that were not entitled before, such as workers whose contracts finished after their trial period; extension of the period in which benefits are received; and/or relaxation on the eligibility for unemployment allowance, reducing the required time one has to be employed to be eligible.

- Income support via wage subsidies, directed or not through employers

  Examples of these measures include supporting employers whose business activities have been negatively impacted by COVID-19, by subsidising a percentage of the wage of eligible employees; and/or compensation directed to both employers and employees to cover for wage costs incurred during certain periods affected by quarantine or emergency measures.

Benefits of harmonised accrual accounting

Using a harmonised public sector accounting framework for cash transfers and other benefits to individuals and/or households to mitigate the effect of social risks (such as a risk of unemployment caused by COVID-19 lock-down measures) enables consistency in reporting by Member States of large amounts of government expenditure.

Consistent data can also be available to explain the characteristics of the social benefit schemes and the demographic, economic and other external factors that may affect such schemes (such as the evolution of certain non-financial KPIs used by governments to measure the efficiency of COVID-19 related measures). In order to assess the effectiveness of these measures and keep government expenditure and deficit under control, governments need a reporting framework which captures and measures the relevant financial and non-financial data.

Proper application of sound accrual accounting principles facilitates the establishment of the relationship between the measures taken (e.g. access to temporary unemployment schemes), the outputs (e.g. government expenditures) and the outcomes (e.g. limitation of effective unemployment rates, maintenance of purchasing power, etc.) and so to evaluate the effectiveness of the measures and the optimisation of the allocation of the government's scarce resources at both national and EU level.

Direct government expenditure, combined with other types of measures, such as for example temporary decrease in the level of tax income and temporary extensions of tax payment deadlines, may have a significant impact on the level of government debt.

Citizens and investors in sovereign debts need comprehensive information about the sources of funding of additional government expenditure and the timing and amount of the future cash outflows under the terms of government debt arrangements (government bonds and other types of government debt) and associated derivative transactions. The substance of the (sometimes complex) debt arrangements, as well as the financial risks borne by governments under the terms of such complex financial transactions should be properly depicted in the financial statements.

Building an accrual-based accounting system that provides comprehensive information on the current level of government debts is also one of the key components to assess the long-term sustainability of government finances. Can the current level of services to the population be maintained given the current tax revenue policies and the current level of debt? Can the government collect sufficient tax revenue to maintain the current level of services and reimburse its debts? How sustainable is the level of government debts given current service expenses and tax revenue policies?

High quality and transparent financial information contribute to the long-term sustainability of public finances and is therefore an important element of intergenerational fairness.

Measure 2: Limiting the spread of COVID-19 through testing and provision of protective equipment

Significant public resources are directed to strengthen the healthcare sector and civil protection mechanisms and to support affected workers and economic sectors.

Governments for instance use money from the European Regional Development Fund and the European Social Fund to invest in their healthcare systems: purchase of health and protective equipment, disease prevention, e-health, medical devices (including respirators, masks and similar), securing of the working environment in the health care sector and ensuring access to health care for the vulnerable groups.

Benefits of harmonised accrual accounting

Accrual accounting requires a government to recognise the assets it has acquired on its balance sheet. Inventories such as protective equipment materials and medical devices are shown and their cost, or net realisable value if lower. Medical equipment that is used for the long term is also transparently displayed.

This creates a strong incentive for governments to optimise the efficiency of their asset management. Showing fixed assets on their balance sheet forces governments to make conscious decisions on how best to use these assets. Accrual accounting also provides a comprehensive, timely and reliable source of information for communicating on the level of strategic inventory available and movements (purchases and consumptions) of inventories. It further provides useful information to the budget owners regarding the quality of the inventories (obsolete inventories need to be written down) and the necessity to order new materials.

Information about assets helps governments to make better and informed decisions on future asset purchases in the public health interest and supports the budget formulation process.

Tax-related measures

General description of measures taken by governments

In most countries, businesses have been (automatically) granted temporary extensions of the deadline to file tax returns and pay taxes.

Businesses can ask for additional support from the tax authorities regarding their tax debts. Such support typically covers a payment plan, an exemption from late payment interest or a waiver of fines for non-payment.

Benefits of harmonised accrual accounting

Taxes are the major source of revenue for many governments. The impact of tax relaxation measures on government deficit needs to be measured and managed. Governments need reliable data more than ever to recognise revenue over the appropriate reporting period, to measure it reliably and thus to keep control over an important source of funding of their operations.

High quality accrual accounting practices provide guidance on when to recognise revenue and for what amount. As recognition of revenue is disconnected from the actual cash receipt, accrual accounting provides better and timely information regarding revenue from taxes. Governments recognise revenue when the taxable event (e.g. the earning of assessable income for income taxes by a taxpayer) occurs and the government has control over the taxes following the taxpayer's obligations, established in accordance with the applicable tax law. As such, accrual accounting provides direct insight into the impact of the government tax related measures far ahead of cash receipts and creates a direct link between the tax revenue generating event and government's revenue.

As the COVID-19 crisis and the related government measures currently have a major negative impact on the sources of tax revenue (VAT-income, personal income and taxable corporate profit), it is important that this be reported in a transparent and comparable way. Digitalisation of the government administration can allow timely reflection of the current tax generating capacity of the government in the government financial reporting as the taxable events can be captured through the government tax portals.

Furthermore, accrual accounting requires governments to assess the recoverability of their outstanding tax claims based on the expectations in terms of recoverability from the taxpayers under the prevailing economic conditions.

Support for businesses

General description of measures taken by governments

Governments provide support to the targeted groups of entities and individuals (self-employed individuals, SMEs, etc.).

Measure 1: Grants

Many governments have provided grants to selected beneficiaries to support individuals, self-employed entrepreneurs and businesses. The measures have a budgetary impact that may span over several years.

Benefits of harmonised accrual accounting

Grants are often used by governments to support individuals, companies or scientific institutions to enhance economic, social or scientific development.

Whereas cash accounting merely states how much a government has spent on a grant programme, accrual accounting reflects each party's rights and obligations under the grant arrangement, enhancing transparency and accountability. It also enhances recovery management, if necessary, as proper accounting allows the grant provider to monitor the satisfaction by the recipient of its obligations, if any, under the arrangement.

Data generated by an accrual accounting system support the definition of a performance measurement framework and balanced scorecards that allow government budget holders to monitor the effective use of the grants. Such information can also be used for strategic decision-making, monitoring and surveillance at both national and EU level.

Measure 2: Loans (on favourable conditions)

Both the European Commission and the Member States can provide financial assistance in the form of loans granted on favourable terms to businesses.

Benefits of harmonised accrual accounting

When loans are granted at below market terms (concessionary loans), the grantor incurs an opportunity cost upon commencement of the loan (measured against market conditions for a similar loan). Under IPSAS, which are the internationally recognised accrual accounting standards for the public sector, such an opportunity cost is recognised upfront upon signing of the loan. The full impact of the government's decision is thus reflected in the financial statements.

Simulations regarding the potential financial impact on the government's final position of the loan portfolio could also support the actual political decision-making when the measure is being considered and the terms of the loans are defined.

Furthermore, governments should assess the credit risks associated with the loans provided to individuals or companies. As some beneficiaries may not be able to redeem the loans received on time or in full, governments should clearly reflect, using a forward-looking approach, the expectations of the potential credit losses of these outstanding positions on their balance sheet.

Measure 3: Equity and quasi equity investments

In view of the economic consequences of the health crisis, some companies operating in strategic and other sectors may fall into a critical situation. Reduced equity for undertakings in markets with low demand and disrupted supply aggravates the risk of an increase in the number of insolvencies and of a serious economic downturn affecting potentially the whole economy for a longer period.

Governments have made targeted interventions providing equity and/or hybrid capital instruments (e.g. convertible loans) to companies to strengthen their financial position. Government investment companies take or increase their strategic stake in companies' shareholding and provide an injection of fresh cash to ensure business continuity and support subsequent economic recovery.

Benefits of harmonised accrual accounting

Government interventions in the equity of strategic or other companies or using hybrid instruments may represent significant amounts that should be faithfully reported as assets in government financial statements. These interventions are not just cash spending. By acquiring or increasing their stake in the capital of certain companies, governments can either exercise a certain influence on the decision-making process of the investees or control them, depending on whether they buy a minority or a majority stake in those companies. They can also expect to receive dividends in the future when the business has recovered.

In government stand-alone financial statements, the carrying amount of the investments need to consider the economic value of the investments. If the recoverable amount of the investment falls below its carrying amount, an impairment loss needs to be recognised in a transparent way in government financial statements, showing that part of the investment might not be recovered.

In government consolidated financial statements, either the investment of the government in the investee reflects its share in the net assets of the investee (if it has significant influence or joint control over the investee but does not control it), or the assets and liabilities, items of income and expenses as well as cash flows of the investee are fully incorporated in the financial statements of the government (if it controls the investee). This way of reporting provides fully transparent information on the use of public money by the government who has power to take the decisions regarding the relevant activities of the investee.

Providing transparent and up-to-date information to the users of government financial statements about the performance of equity investment portfolios is essential and contributes to the accountability of government actions during the crisis.

Measure 4: Public guarantee schemes

In order to protect the liquidity position of businesses and safeguard their solvency, governments have created financial (credit) guarantee schemes.

The purpose of a credit guarantee scheme is to encourage additional lending to companies by offering a government guarantee to banks against losses on qualifying loans to eligible companies. It also provides the eligible company protection against the banks upon default of payment. A credit guarantee scheme does not substitute conventional lending that would otherwise have taken place. Credit guarantee schemes can be used by businesses to obtain loans to support changes they need to make to their business in response to the COVID-19 crisis.

Benefits of harmonised accrual accounting

Providing financial guarantees may be seen as a good way to support other public or private sector entities without immediate cash outflows. However, this puts governments at risk if debtors default. Given the current economic conditions, it may reasonably be expected that a number of debtors will actually default.

Under internationally recognised accrual accounting principles, a government already captures this risk of default in its reporting at the time the loan guarantee is granted. This provides full transparency of the potential financial impact of this measure on governments' budgets in future years. This would be challenging to achieve without good accrual accounting information.

Accounting for financial guarantees also requires the government to perform an ongoing monitoring of the financial position (solvability and liquidity) of the specified debtors or groups of debtors and thus stimulates implementation of better risk management policies and better information systems and processes in the public sector.

In turn, proper reflection of the risks associated with the measure in the financial statements enhances the risk awareness and supports informed decision-making by governments and EU level stakeholders.

Support for financial systems

General description of measures taken by governments

The ECB put in place a set of monetary policy and banking supervision measures to mitigate the impact of the COVID-19 pandemic on the euro area economy and to support European citizens.[4]

Measure 1: Repurchasing bonds and other asset-backed securities

The ECB announced €750 billion Pandemic Emergency Purchase Programme (PEPP), a new temporary asset purchase programme of private and public sector securities to ensure the stability of the financial markets considering the risks involved by the COVID-19 crisis.

Benefits of harmonised accrual accounting

Governments at all levels often incur large amounts of borrowings to fund their activities, including their social programs or the construction of infrastructure assets. These represent a very significant portion of liabilities in the balance sheet.

When a government has incurred major (long-term) obligations in relation to its activities, these should be properly reflected in the financial statements too, and appropriate disclosures should be given.

Accrual accounting standards allow governments to measure and fairly present their debt position and the impact of the financial markets' situation (lower interest rates, issuance premiums above or below par) upon issuance of the government debt securities.

EU Member States' debt agencies typically manage and mitigate the government's risk exposure to volatility in the markets using advanced hedging instruments (interest swaps, caps,

[4] https://www.ecb.europa.eu/home/search/coronavirus/html/index.en.html

floors and foreign currency hedging). Accrual accounting reflects the mitigating impact of these protective measures in the government's accounts.

Interested stakeholders, both politicians and taxpayers, can also draw useful information from the financial risk disclosures included in the government financial statements as regards the government's exposure to volatility in interest rates, foreign currency and can find forward-looking information regarding a government's liquidity position.

Measure 2: Lowering interest rates

The ECB announced interest rate cuts on long-term loans (TLTRO). Between June 2020 and June 2021, banks can borrow money for a long period at -0.5 percent instead of -0.25 percent. If they provide sufficient loans to families and businesses, they can even borrow money at -1 percent instead of -0.75 percent. In addition, the ECB is launching a new credit facility (PELTRO). This measure should support the liquidity of the financial sector and ensure the smooth functioning of the money market.

Benefits of harmonised accrual accounting

Lowering the interest rates will not only positively impact the government's future disbursements as regards interest to pay on its financial debts.

The measurement of many long-term obligations (e.g. pension obligations, environmental obligations) is impacted by the level of the long-term interest rates. Such obligations are measured on a net present value basis; the higher the discount rate, the lower the liability and vice-versa, reflecting the capacity for the government to fund these long-term liabilities. The impact of a lower long-term interest on, for example, a government pension liability is indeed twofold: a lower discount rate increases the pension liability but also reduces the funding capacity of the pension plan assets which mainly consist of debt securities, bearing lower yields.

When interest rates are very low, the liability to be reflected on the government balance sheet approximates its nominal amount. Higher amounts of liabilities may influence the political debate about sensitive political choices concerning their future funding, the type and level of benefits or costs that can be supported (e.g. pension retirement age and alternative pension pillars through private sector salary packages).

Whereas cash accounting frameworks do not provide any forward-looking insights on pension or environmental funding needs, accrual accounting standards do. The liability that is reflected on the balance sheet is the best estimate of the future cash outflows that will need to be paid in the long term for obligations that have already been created at the balance sheet date considering the existence of the schemes and/or legislation already in place.

This helps political decision makers, at national and EU level, to make informed choices as to the long-term impact of the social, environmental or other policies to be implemented, bringing the element of intergenerational fairness at the heart of the political decisions.

Finally, detailed disclosures and sensitivity analysis on key parameters (e.g. retirement age) influencing the amount of the long-term obligations also provide insights that are useful for the decision-making.

Wider public finance management considerations

EPSAS in support of strong and transparent public finances

Governments are entrusted to manage public resources and deliver a wide range of public services in a sound, cost-effective and sustainable manner.

The scale of government interventions implies that the pandemic may have profound and long-lasting impacts on government finances. Government finances already represent a significant part of each country's economy, and this will increase following the crisis.

Accrual accounting makes it possible for governments to put together a comprehensive picture of what they own and owe - known as balance sheet - and of their net surplus or deficit of the year - known as financial performance. What is owned are assets that will continue to exist into the future and show the service delivery potential or the capacity to generate economic benefits, and what is owed are liabilities that will need to be paid in the future. When thinking about the timeframe for government investment in social and medical systems as well as wider economic and environmental roles, it clearly makes sense to work on an accruals basis, providing ministers, parliaments and citizens with a full picture of the government's financial position while giving officials the information they need to make better financial decisions. Unlike cash accounting, it gives a more comprehensive picture of an organisation's financial position and financial performance by bringing into the financial statements all the revenue, expenditure, assets and liabilities of a government.

Harmonised accrual accounting by governments across the EU does not only create the ability to recognise, value and manage public sector assets and liabilities, it also makes public finances more comparable across and within Member States. Greater transparency and comparability hold governments accountable to each other for the use of public money and therefore provide the foundation to build or restore trust between Member States. From this perspective, harmonised accrual basis EPSAS are an essential element of EU integration.

The EU recognised the relevance of harmonised accruals-based accounting when it adopted the budgetary framework directive of 2011 (Council Directive 2011/85/EU of 8 November 2011). This directive requires member states to have in place comprehensive and consistent public accounting systems for all subsectors of government (central, state (where applicable), local and for social security funds) in order to generate accruals data for ESA 2010. The EC undertook an assessment of the suitability of IPSAS (International Public Sector Accounting Standards), as a basis for developing harmonised government accounting rules in the EU. The EU has yet to implement harmonised accruals-based accounting standards to ensure consistency across member state governments. Consequently, although reforms are being undertaken in many EU countries, the application and use of accounting information in the EU generally remains suboptimal and the potential arising from the implementation of a holistic accruals accounting reform is not yet realised.

High-quality financial reporting under a robust set of EPSAS standards helps ensure that all stakeholders, including taxpayers and recipients of government services, policy makers (at national and EU level), businesses, and investors, receive reliable and transparent information about the government's activities related to COVID-19 and the impact on public finances. A single high-quality accounting and financial reporting framework supports the EU economic stability efforts by promoting greater transparency, quality and accountability in the public sector. Policymakers, international institutions, and financial markets need complete and comparable financial reports to make sound decisions and support long-term planning.

Accountability and transparency

By reporting on their financial position and performance in a complete and comparable manner, governments enhance transparency and can be held accountable for their use of public funds. This transparency can only be achieved through harmonisation of reporting practices and is necessary for the proper functioning of financial markets and of the budgetary surveillance framework of the European Union, increasing the credibility of fiscal reports and permitting national policies to be assessed at the EU-level. Harmonised accrual accounting principles based on international best practices contribute to the transparency of the COVID-19 measures by ensuring recognition and fair depiction of economic transactions and events as they occur.

As a number of these COVID-19 measures have a long-term financial impact, it is of utmost importance that this be reflected in the governments' financial statements. The financial obligations incurred by the governments as a result of measures with a multi-annual life cycle such as for example loan guarantee schemes should be properly reflected so as to provide the necessary transparency regarding the impact of these measures on future years' budgets, deficits and debts. The separate disclosure of government expenditure in the context of the COVID-19 crisis also provides better visibility about the amounts involved and how funds have been used.

COVID-19 measures may bring short-term relief to individuals and businesses, but the sharp increase of government expenditure will put further pressure on the governments' sovereign debt position. Accrual accounting will provide a balanced view on the short-term benefits of these measures and the long-term impact they may cause. It will support governments in finding the right balance between bringing relief to the current crisis and the financial burden this may put on future generations.

Government interventions and investments in strategic businesses impact the scope of activities controlled by governments. Clear guidance on the boundaries of governments' consolidation scope provides transparency regarding acquired assets and assumed liabilities and shapes the limits of the governments' financial accountability.

Transparent financial reporting also engages the accountability of the political decision-makers as the long-term impact of the measures will be visible to the citizen-taxpayer.

Long-term fiscal view

Robust accrual accounting systems in all Member States for all sub-sectors of general government will generate comprehensive and reliable data that can be used for budget surveillance and fiscal monitoring at the macro level in the EU.

At the entity level, accrual-based financial information provides a comprehensive view of a government's financial position, which is a key element for assessing fiscal sustainability and understanding the risks that may threaten the government's long-term fiscal position.

Long-term liabilities, such as sovereign debts and pension liabilities, provide a measure of the future cash outflows needed to honour the government's current obligations. This allows political decision-makers to assess whether the current policies, both in terms of revenue generation and in terms of government expenditure, can remain sustainable in view of the resulting financial obligations.

The recognition and measurement of long-term assets such as infrastructure assets provide an economic view on both the magnitude of the assets managed and the current state of these assets. This information can be used to assess future funding needs to replace or maintain the government's infrastructure as part of the overall assessment of the sustainability of public finances.

Bringing all assets and liabilities in a government balance sheet provides useful information on its net assets position or net wealth. The concept of net wealth can for example be used as a key indicator to monitor the evolution of government finances.

Prospective information about the long-term financial implications of governmental and other public sector entity programs, about the capacity to fund these through tax or debt raising is very useful information for political decision-makers. Long-term sustainability is the ability of an entity to meet its service delivery and financial commitments both now and in the future.

As the current economic downturn negatively impacts the expected tax-generating capacity of individuals and businesses and COVID-19 measures increase government expenditure, political decision-makers can derive essential information from long-term sustainability assessments in an environment of resource scarcity. This would involve information on both historical and prospective bases regarding fiscal capacity (the ability to meet financial commitments), service capacity (capacity to maintain services at the volume and quality provided to recipients) and the governments' vulnerability, which reflects fiscal dependency upon governments' funding sources such as their power to raise taxes and intergovernmental transfers.

The current COVID-19 crisis, however, also offers an opportunity to government officials and parliament members across the EU to reconsider and reshape the core of the government function. As the economic recession will negatively impact government resources in future years, governments will need to be very selective in their policy choices and focus on what the citizen-taxpayer considers to be essential government roles and responsibilities. Long-term sustainability assessment of current policies will support parliament and government to make accountable choices that take intergenerational fairness into consideration.

Decision-making

Informed decision-making on government policies requires relevant and reliable input data. Policy decisions regarding the extension, renewal and maintenance of infrastructure assets can be supported by financial reporting on infrastructure assets which embeds the operational management of the assets in the reporting to government officials. Government decision-makers will therefore have a clear view on the size, valuation and current state of the government's infrastructure.

Similar considerations apply to government long-term liability management. The recognition and measurement of financial, social (such as pension) and environmental liabilities inform government decision-makers on the financial obligations of the government that will result in cash outflows in future years.

Key disclosures in the notes to the financial statements provide useful input on the sensitivity of policy choices to environment variables which may be out of government control such as financial market parameters and demographic data. These sensitivity analyses enhance the risk awareness of decision-makers and provide useful information for parliamentary scrutiny of government policies.

Accrual-based accounting information provides useful insights into government assets and liabilities. It also provides the foundation for implementing best practice guidance regarding the reporting of service performance of government activity which provides a next layer of information to assess whether the government function delivers value for money. Such reporting can provide information on government policy objectives and an assessment of the achievement of these objectives.

Sound accrual accounting practices are a powerful tool to measure government performance as compared to the objectives stated, based on relevant key metrics, enhance the efficiency and effectiveness of the use of scarce resources by budget owners and remove redundant activity and associated costs by optimising the use of the public sector workforce. Senior government officials and parliamentary surveillance bodies are offered key information to assess the good use of taxpayers' money and ensure that the government honours its contract with the citizens.