



Sustainable Public Finances: EU Perspectives

Better government finances

the role of information design

Synopsis of discussion on 8 November 2016



Introduction

Sound financial management and reporting are central to the effective delivery of public services in Europe and elsewhere. But it's only when policymakers can use and master the multiple financial frameworks for understanding public finances that we will start to achieve greater sustainability.

There are three major frameworks for analysing public finances – budgetary, statistical and financial reporting. The differences between these frameworks and the reasons why they present different pictures are not always understood.

Traditionally, budgetary discussions receive the most public attention. The budget is a central policy instrument, showing how governments intend to prioritise and achieve policy objectives. Statistical reporting aims to measure economic activities, based on the European System of National and Regional Accounts (ESA), whilst financial reporting is based on a method of accounting in accordance with accounting standards, culminating in financial statements integrating revenue, expenditure as well as other gains and losses and cash flows with a balance sheet.

The potential benefits of using all three frameworks to drive evidence-based policy-making are significant – both in terms of increased transparency and better financial management.

Linking up financial information

Working in a joined-up way, accountants and statisticians can help ensure the connectivity of different financial frameworks to provide a more holistic picture. Statisticians often focus on the macro level of the economy. They prepare government finance statistics (GFS) which, in the EU, underpin fiscal rules and medium-term fiscal objectives. The objective of GFS is to describe a national economy and how it works. Inputs include business accounting; data related to production, employment, productivity, inflation; as well as information pertaining to monetary policy and budgetary policy. Consequently, GFS provide important data to help steer the economy. Public policy and media debate also focus on other numbers, including on Gross Domestic Product (GDP), Gross National Product (GNP), Gross National Income (GNI) as well as net debt and borrowing figures. These are all useful measures, but it is important to identify what is left out and to consider how these gaps can be bridged.

Accountants tend to be more focused on the micro or entity level. Their financial accounting approach to analysing the public finances can help to identify and quantify important blind spots, for instance those relating to public sector pension liabilities, nuclear decommissioning costs or complex and risky financial arrangements. They do so by preparing financial statements, produced according to a set of accounting standards such as International Public Sector Accounting Standards (IPSAS) or in certain countries International Financial Reporting Standards (IFRS) as adapted for the public sector. This approach helps to reveal charges for obligations incurred today that will result in cash outflows in the future. Showing all assets on the balance sheet also provides an incentive to optimise their management and use in the public interest.

European System of Accounts (ESA)-based statistical indicators, such as GFS, GDP and GNI draw on source data from public sector accounting systems. To date, statistical authorities in the EU have to translate cash-based financial information into an accruals financial position. Across the EU, there is now growing appreciation of the need for improving the basis for statistical information for economic coordination and fiscal surveillance purposes. There is also recognition that the exercise to re-conciliate non-harmonised public sector micro-level accounting data is reaching its limits. Strengthening the quality of the upstream data sources (ie, the accounts of public entities) would help solve this. Such an approach was at the core of the so-called '6 Pack' of EU legislation, adopted in 2011. Eurostat has since driven efforts to harmonise public sector accounting standards with the ultimate aim of bolstering the quality of the macro fiscal reporting, improving public financial reporting transparency and comparability as well as public financial management.

Information design

Making sense of public finance numbers through public relations activity and media commentary is vital for taking the essential step from availability to accessibility of financial information. The best financial information has only limited impact if it doesn't find its way into the policy-making process or the wider public debate. Rather than being published in undigested form, information on government finances should be accompanied by a fair, balanced and understandable narrative that explains and relates the numbers. Governments may draw on innovative communications techniques including visualisation and interactive technology. Experience shows that certain considerations can be helpful:

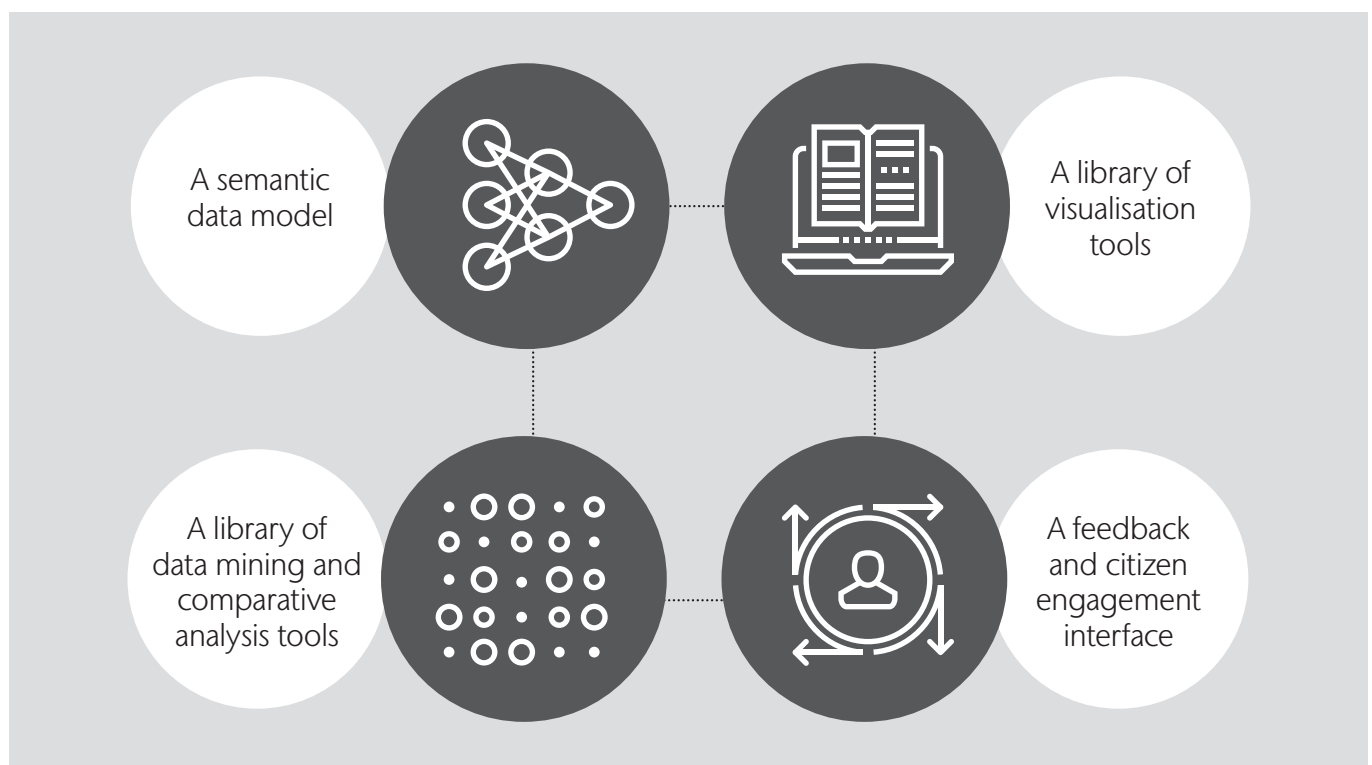
- **Put numbers into perspective:** For instance through visuals or by developing a plain language narrative. This can take the form of breaking down expenditure, debt, deficit and other key figures into terms to which citizens can more easily relate. For example: How many single-family homes is the national debt worth? How many compact cars could you buy from the total national expenditure? How much is the national debt per citizen?
- **Mind the micro as well as macro context:** While the overall picture and outlook is important, many citizens are more likely to care about the levels of public finances that seem closer to them – also geographically. For instance, they might want to know whether the government will be able to continue funding for local schools or hospitals.
- **Why does it matter? It is important to try and explain the possible direct implications (immediate as well as long term) of financial decisions for people's livelihoods. For instance:** Where does the state have to cut back and why? Where will it be spending more and why is that good for me?
- **Draw attention to intergenerational fairness:** People generally care about the well-being of the next generation. We all share a responsibility to not consume more than we can afford. Citizens are more likely to accept spending cuts if they see why this might be necessary to protect the public purse in the long term. Information design can help to reveal how much of the future we have already consumed and what burden we are placing on the shoulder of future generations.
- **Tailored strategies of communication are essential. These may be directed externally towards citizens, media, and civil society organisations, or internally across government and other public bodies, such as Courts of Auditors or Parliaments.**
- **Learn from best practice:** Some governments have already made considerable progress and established new ways to communicate complex information in an easy-to-digest format. Some produce brief annual summary reports of what the state owns, owes, where revenue comes from and where it goes to. The summary is written in plain language and supported by clear visuals.

The role of civil society groups and open data platforms

A growing number of civil society groups have become actively involved in public finance debates over the last few years. Some have done so by taking innovative steps to make it easier for citizens to participate in the democratic scrutiny process.

One interesting example is the Openbudgets.eu project, which seeks to facilitate public understanding by providing an overview of EU public spending, along with a set of tools to analyse data. OpenBudgets.eu provides an easy-to-use data platform, which can be used by policymakers, journalists, other civil society activists, academics or any citizens to look at EU public finance information. It enables users to scrutinise this data under different lenses by making available a wide set of visualisation tools and data mining options.

A common challenge for governments and civil society groups is to find the right balance between engaging citizens and presenting information in an unbiased way. Categorising and choosing what information to present can result in sensitive items being left out. Strong conceptual frameworks, standards and methodologies relating to the collection of information can provide an important defence against misinterpretation of data. Ultimately, the best summary or visual is only as good as the scope and quality of the underlying data.



Source: <http://openbudgets.eu/about/objectives/>

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Sustainable Public Finances – EU Perspectives

The importance of robust public finances and informed decision-making in terms of fiscal, economic and monetary policies is illustrated by the large share of public expenditure in the gross domestic product (GDP), approaching fifty percent in the EU. The efficient management of public resources and improved planning for future needs are vital to maintaining the EU's high living standards and to creating a supportive business environment.

The joint ICAEW-PwC initiative *Sustainable Public Finances: EU Perspectives* addresses significant public sector financial management and accounting challenges. The series aims to draw out constructive insights from a variety of perspectives and from a range of different stakeholders to help move forward reform of public sector accounting, to ensure high quality and comparable information across all EU member states.

**We hope that you find this synopsis of the discussion to be of interest.
Please send us your comments, to: europe@icaew.com**



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