



[Draft, 29 April 2016, 16:53CET]

**PROPOSAL FOR A CEPS TASK FORCE ON**

**Transparency and Fiscal Performance  
Assessment**

**- How a balance sheet can be a key performance assessment tool -**

**Draft**

**Chair: Enrico Giovannini, Professor, University of Tor Vergata,  
former President of the Italian Statistical Institute (Istat)**

**Rapporteurs: Jorge Nunez Ferrer, Associate research Fellow, CEPS  
David Rinaldi, Research Fellow, CEPS**

**First meeting: tbc (from 10:30-16:00)**

Second meeting: (tbc)

Third meeting: (tbc)

Meeting venue:  
Centre for European Policy Studies (CEPS)  
Place du Congrès 1, 1000 Brussels

For regularly updated information about this CEPS Task Force, please visit:

[www.ceps.eu/panel4](http://www.ceps.eu/panel4)

## 1. Overview

Fiscal policy and the sustainability of public finances are usually assessed mainly by reference to the flows of annual expenditures and revenues, often in conjunction with the overall debt of the government. This is clearly insufficient. There is thus an urgent need to improve transparency and produce serious accounting data for governments to assess fiscal performance, especially balance sheets, which can be a key performance assessment tool, especially in countries that are under financial stress due to high public debt and fiscal deficits. This is essential for a future efficient operation of the single currency and for government institutions to demonstrate that they can create value.

**Important Issues:** A first important issue is the adoption of International Public Sector Accounting Standards (IPSAS), which could greatly enhance the transparency and credibility of public financials. Expenditures and revenues should be recorded on an accrual basis, thus reducing the temptation of Finance Ministries to massage their accounts by, for example, delaying payments to suppliers. These delays do not only increase the overall cost for the public purse, but they also create large costs for the economy as uncertainty and delays ripple through the supply chain. More than 80 countries as well as international organizations, such as the European Union (and the Council of Europe, NATO, the OECD, the World Bank and the United Nations), have already adopted IPSAS. But at EU level, most countries continue to prepare their financial statements based on cash accounting basis. The exceptions are countries like the United Kingdom, France, and Sweden, mostly countries with strong public administrations. A first issue is thus the adoption of IPSAS by all Member States. An effort is on-going with Eurostat to agree to a European level system that all member states comply too, the EPSAS (European Public Sector Accounting Standards), but IPSAS is presently offering already the method to producing the necessary information and could be adopted by member states as it is.

**Steps to Consider:** The adoption of IPSAS standards by all member states would be a first important step towards greater **transparency**. But transparency is only a small consequence compared to further benefits of such a system. It is essential for the operation of the Eurozone. A second step would be to draw up comprehensive balance sheets for the public sector. Just as an enterprise is not valued purely on the last income number, an overall view of public finance requires a proper view of the overall assets and liabilities of the public sector. The Maastricht criterion on debt (and the minimum reduction required under the Fiscal Compact) are based on a legal construct, namely gross debt at face value. Using legalistic concepts like this is often done in bond covenants, but the value of an enterprise is not determined on the basis of its outstanding debt, but rather the difference between assets and liabilities. A balance sheet which shows all the assets and liabilities of the public sector can provide a **much fuller and more accurate picture of the sustainability of public finance than the gross debt figures at face value**. Moreover, the evolution of the balance between assets and liabilities (the net worth of the government) over time provides an important view of the success or failure of fiscal policy other than only focusing on the debt and deficit. A sharp fall in the net worth should be a warning signal, independent of the fiscal deficit. And, shining the light of transparency on the performance of managing financial assets, especially in government at risk of nefarious behaviour, is essential. This is why a number of countries already prepare and publish comprehensive balance sheets (e.g. UK, US, Canada, Switzerland, Australia, New Zealand, South Africa).

**Benefits to Users:** Public sector balance sheets could thus provide an important additional piece of information for policy makers, investors and those interested in the sustainability of public finances in general and in creating value. For example, the Commission and the national fiscal councils, which have been created under the Fiscal Compact would benefit. The balance sheet statement and its relationships with the other two IPSAS financial statements (the performance statement and the cash flow

statement) -- supplemented with the analysis discussion, standardized financial footnotes, and audit opinions -- are a source of meaningful analysis. Each line item of the balance sheet, the contra items, and the footnotes can provide valuable insights into fiscal performance assessment, and performance gaps, and value creation.

**Special Concerns:** As with many things, the devil is in the details and in the quality of execution of the agreed upon best practices. IPSAS has 32 standards customized to the public sector with Exposure Drafts and Recommended Reporting Guidelines. For IPSAS financial statements to be internationally comparable, analysis requires a careful understanding of which standards were not fully adopted. For IPSAS to be most effective, the **task force should analyse the importance of IPSAS being used as part of the decision-making process** and not only as a certification process published on a timely basis. The task force should also address major misperceptions concerning IPSAS versus government financial statistics (GFS), especially ESA 2010 and 2008 SNA. In particular the task force should address a potential misperception that IPSAS debt values declines when a government borrowing rates increase. Is it GFS that requires debt to be marked to market, which has perverse consequences of debt levels rising when a government's credit improves and/or interest rates decline?

**Role of Audits:** Finally, as in the private sector, there is the question of auditing. To be credible, public sector balance sheets should be independently audited. The large accounting firms would of course be qualified on professional ground. But, especially for large Member States, their independence might be questioned given that they might come under considerable pressure should they criticize the accounts of the government. If schemes to create fiscal illusion violating substance over form reporting (also known as cooking the books) are to be minimized, independent audits are essential. In this EU context, one solution might be the European Court of Auditors in Luxembourg. This institution has at present very limited tasks, relating primarily to EU

expenditures and programs. Its mandate might have to be changed. Another solution would be to assign the task to Eurostat, but this institution has little experience in accounting and auditing.

## 2. How does a CEPS Task Force work?

CEPS Task Forces constitutes multi-stakeholder fora where representatives from the European Institutions (European Commission, Council, European Parliament, Eurostat, ECA, etc.), member states' officials, business and industry, International Organizations (e.g. OECD), academic experts and other stakeholders meet, discuss solution proposals and make recommendations to some of the biggest challenges for the EU.

The new CEPS Task Force will meet three times in the period of six months. All meetings will be held at CEPS, typically lasting from 10:h30-16:h30. Generally, speakers are recruited from the Task Force, although external speakers can be invited to tap into additional knowledge. Speakers typically speak no longer than 5 to 10 minutes to allow for sufficient discussion time. In order to ensure a broad input from external experts, it is aimed to involve .....in the project.

It will be chaired by Enrico Giovannini. The rapporteurs will be Jorge Núñez Ferrer, Associate Research Fellow, and David Rinaldi, Research Fellow.

At the end of the Task Force, we will publish a CEPS Task Force Report that will present policy recommendations. This Report will be circulated among EU and member state policy circles.<sup>1</sup> The report will be based on discussions in the meetings, supplemented by research carried out by the rapporteurs. The Draft Task Force Report will be circulated before the fifth meeting to be discussed and approved by the Task Force and then published as a CEPS Task Force Report<sup>2</sup> and circulated

<sup>1</sup> For further information, please visit [www.ceps.eu](http://www.ceps.eu).

<sup>2</sup> In the "Task Force Report" series:

<http://www.ceps.be/category/book-series/ceps-task-force-reports>

among EU, member states and international policy makers.

Note that the CEPS Task Force Report will contain the general tone and direction of the discussion, but its recommendations do not necessarily reflect a full common position agreed by all members of the Task Force, nor do they necessarily represent the views of the institutions to which the members belong.

For the detailed programme, please see the Work Programme & Agendas of Meetings.

For Registration, please return the **Registration Form in the Appendix.**

### **3. Preliminary agenda**

Venue of all meetings:  
CEPS, Conference Room, Place du Congrès 1,  
1000 Brussels; tel.: +32 2 229 3911  
[www.ceps.eu](http://www.ceps.eu)

**1<sup>st</sup> meeting: [June] 2016**  
**Assessing Fiscal Performance –**  
**Understanding the Global Landscape.**

Morning:

Objective of the morning session is to review global benchmark financial statements.

Afternoon:

Assess performance measurement KPIs.

**2<sup>nd</sup> meeting: [July] 2016**  
**Best Practices to Improve Decision Making**  
**and Create Value.**

Morning:

Asset and liability best practices.

Afternoon:

Human capital best practices for successful and rapid implementation.

**3<sup>rd</sup> meeting [September] 2016**  
**Discussion and agreement of final report**  
**Discussion on future potential activities**



## **Annex 1. Organisation and governance of task Force**

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### **Meetings:**

- Three task force meetings arranged over [June, July, September]. The first meeting will be held on [...] from 10:h30-16h:30 and the second on [...] from 10:h30 to 16:h30. The third and final one is expected to be held around [September] 2016. Although not foreseen at the moment, the need of a fourth meeting might arise.) All meetings will be held at the offices of the Centre for European Policy Studies (CEPS).
- Ahead of the third meeting, CEPS will circulate the Draft Task Force Report including draft recommendations. The Task Force will discuss, amend and approve the final report. This report will be based on discussions in the meetings supplemented by research carried out by the rapporteurs.
- The final Task Force report, complete with recommendations will be presented on different occasions including for example in the European Parliament, in Brussels events or in member states. The Report will also be published and circulated among EU, member state and international policy makers.



## **Annex 2. Why a CEPS Task Force and how does it work?**

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The CEPS Task Force will constitute a unique forum of representatives from the European Commission, Members of the European Parliament, officials from member states, business and industry, NGOs and other stakeholders to discuss highly topical issues in a multi-stakeholder setting. The objective of a task force is i) to create a process where issues can be analysed in open but structured discussion and ii) to publish an authoritative analysis leading to policy recommendations. CEPS will produce an (operational) synthesis report for each meeting. At the end of the Task Force, CEPS will publish and circulate among EU and member state policy circles policy recommendations together with a background report, which will be also formally published in the CEPS Task Force Report publication Series. The Background Report will be based on discussion in the meetings supplemented by research carried out by the rapporteurs.

Potential members of the Task Force are MEPs, Representatives from the European Commission, member states, other EU institutions, NGOs, academia and key stakeholders from business and industry.

CEPS has a track record of having run over 100 task forces.

See: <http://www.ceps.eu/panel4>

### **Conditions for participation**

The CEPS Task Force is primarily designed for CEPS Corporate Members but participation is open to non-members as well, albeit at a higher fee.

The fee covers participation in all workshops, documentation, lunches and three copies of all reports produced. Upon request by participants, CEPS will mail additional copies of the final CEPS Task Force Report to persons identified by participants.

#### **Participation fees:**

(Fees under review)

Officials from governments and public institutions can attend free of charge.

A registration form is provided at the end of this prospectus.