Accrual Financial Reporting In the Australian Public Sector: An Economic Perspective

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Abstract

Australian governments have recently moved from cash accounting to accrual accounting. This paper discusses a number of issues pertaining to key accrual fiscal measures. Governments have adopted Australian Accounting Standard 31 as their principle accounting framework, relegating the Australian Bureau of Statistics' alternative GFS accrual framework to a secondary role. AAS and GFS differ in key respects in the derivation of the operating result. This paper suggests that the ABS framework is superior, and should have been adopted by government.

Rather than welcoming the shift to accrual accounting as a good opportunity to shift the focus of medium-term fiscal policy away a narrow preoccupation with 'cash' balanced budgets and debt, governments have chosen to maintain policy continuity. This has led them to define new 'headline' fiscal measures which are either identical, or quite close, to the cash budget balance. This Commonwealth's new 'fiscal balance' headline measure is discussed.

1. Introduction

Over the past couple of years, Australian Governments have been progressively implementing accrual accounting in their general government (ie budget) sectors. As a result, Australia has now joined the handful of countries in which accrual accounting has assumed the role formerly played by traditional so-called 'cash' accounting. Victoria was the first Australian government to bring down a fully accrual budget, in fiscal year 1998-99. The Commonwealth and most other states followed in 1999-2000. The Australian Bureau of Statistics (ABS) has followed a similar timetable in placing its Government Finance Statistics (GFS) series on a full accrual footing from 1999.

In presenting their budgets, governments have generally followed Australian Accounting Standard (AAS) 31. The accrual methodology of the new GFS presentation differs in certain respects from AAS 31 methodology, although in other important respects the two coincide.

2. The Context

Australian Governments have since the late 1980s been preoccupied with the reduction of the stock of public debt as the primary objective of medium term fiscal policy, and most of them have set explicit net debt[1] reduction targets. Consistent with this, the centrepiece of their medium-term fiscal policies has in most cases been a fiscal rule expressed in terms of the 'cash' (ie cash accounting) budget balance. Traditionally, the cash budget balance was defined as 'cash' revenue (ie payments received other than via the sale of bonds) minus expenditure (payments made other than for the purchase or redemption of bonds)[2]. Thus defined, the cash budget balance measures government net lending, and is equal to the reduction in nominal net public debt, excluding 'revaluations' of the stock of debt. Debt revaluations refer to changes in the market value of debt instruments which do not reflect any underlying lending transaction. They arise principally from changes in expected interest rates and, in the case of foreign-currency debt, changes in exchange rates. Thus it can be said that, as traditionally defined, the cash budget balance is the flow counterpart of the net debt stock measure, with the precise 'articulation' of stock and flow measures being broken by revalutions.

Thus, for example, it was the cash budget balance which the federal Coalition government had in mind when, upon coming into office in 1996, it declared that its overarching fiscal rule was to 'achieve underlying budget balance on average over the business cycle'. Similarly, to take one other example, the principle medium-term fiscal rule now being applied in New South Wales is that 'the Budget should be at least balanced (on a GFS cash basis) over the course of a full business cycle', notwithstanding that the primary medium-term objective is zero net debt by 2020.

Although most governments have explicit net debt targets, medium-term fiscal rules expressed in terms of the flow measure (the cash budget balance) have had primacy over targets expressed in terms of the stock measure (net debt). There are a number of reasons for this. One is the impact upon debt of revaluations, which are both volatile and beyond the immediate control of policy-makers. By setting the medium-term

fiscal rule in terms of the cash budget balance, policy-makers avoid the distorting impact of debt revaluations. It is also relevant that it was easy to adjust the cash accounting flow measure in response to the widespread reaction against the use of privatisation receipts by governments in the early 1990s to artificially reduce reported cash budget deficits. The 'underlying' budget balance referred to in the federal Coalition's fiscal rule is an adjusted version of the cash budget balance in which privatisation receipts and other 'net advances' are treated as equivalent to borrowing (ie as 'financing transactions') rather than as equivalent to revenue[3].

In an accrual accounting context, the statement of financial flows reports the 'operating result' rather than the cash budget balance. The introduction of accrual accounting within the general government sector therefore raised the question of the status of the cash budget balance as the headline fiscal measure. In the 1999-2000 Commonwealth budget a new fiscal measure—the *fiscal balance*—was introduced, and the Coalition's central fiscal objective of 'underlying budget balance on average over the business cycle' was reformulated as a requirement for 'fiscal balance, on average, over the course of the business cycle' (Treasury, 1999a: 1.14). Although the cash budget balance continues to be reported because of its significance for short-run stabilisation policy, the fiscal balance is now regarded as the 'headline' fiscal measure. As discussed below, the fiscal balance is derived through adjustments to the operating result which have the effect of producing a measure which is quite close to the underlying cash balance. Indeed, Treasury regards fiscal balance as 'the accrual counterpart of the underlying cash balance' and takes the view that, like the cash balance, it 'measures the Government's contribution to net lending'. The shift to this new headline fiscal indicator has not been accompanied by any rethinking of medium term fiscal policy. Rather, the emphasis is upon policy continuity (Treasury, 1999b, 2, 3, 8, 19).

Although at time of writing no state has adopted the fiscal balance measure, many have done what is in effect the same thing by announcing targets for the operating result the achievement of which is approximately equivalent to the achievement of zero fiscal balance and to underlying cash balance. In Victoria, for example, the 1998-99 budget announced that the centrepiece of it budgetary policy would be the achievement of what it refers to as a *required operating surplus*. In the same year, South Australia announced a *target operating surplus*.

3. Fiscal Balance and Net Financial Assets

Fiscal balance is defined as the operating result before abnormals, plus revaluations, minus capital adjustments. The operating result before abnormals is an AAS 31 concept. AAS 31 requires the presentation both of an operating result before abnormals and an operating result after abnormals. It is, however, the former which is regarded as more meaningful, and in Commonwealth budget documentation the operating result before abnormals is simply referred to in shorthand as the 'operating result'. This shorthand is also adopted in the discussion below.

A word of explanation is required in relation the two adjustments made to the operating result to derive the fiscal balance. The, first, the 'capital adjustment', equals capital expenditure minus depreciation: in other words, net investment. The second,

‘revaluations’, has a broader meaning in the accrual context than in the cash accounting context: it encompasses not only the debt revaluations mentioned above, but also revaluations which affect other balance sheet liabilities (eg superannuation) and assets (including physical assets and equity holdings). AAS 31 requires that revaluations be treated as ‘above the line’ items which enter into the computation of the operating result before abnormals. Adding revaluations has the effect of eliminating revaluations from the fiscal balance. Treasury argues that this is appropriate because revaluations ‘do not reflect changes in the Government’s resource position’ (Treasury, 1999b: 13; 1999a: 1.30). While one can agree with this position, it raises the question of why AAS 31 includes revaluations in the operating result in the first place. This issue is further discussed below.

Fiscal balance is also a concept in the GFS framework, although in that framework it is termed *net lending* (ABS, 1997: 9). The primary GFS operating result concept is the *net operating result*. By contrast to the AAS 31 operating result, the GFS net operating result excludes revaluations, which it considers to be a type of abnormal. It is therefore not necessary to adjust the GFS net operating result in order to eliminate revaluations in the derivation of net lending.

To clarify the difference between the fiscal balance and the cash balance, we make the simplifying assumption that (other than revaluations) there are no abnormals, so that

Operating result before abnormals = Increase in Net Assets
= Increase in Net Financial Assets + Increase in Net Non-Financial Assets

The distinction between financial and non-financial assets is not to be found in the accounting standards or in government accounts: it is introduced here for analytic purposes. Non-financial assets are assets which are part of the capital stock (ie which are created by expenditure which is classified as capital expenditure). Principally, these take the form of fixed capital and land. All other assets and liabilites are considered to be ‘financial’. This latter category includes not only money and bonds, but also accounts receivable/payable, tax revenue which has been determined to be payable but has not yet been received and employee entitlements (the most important of which is superannuation liabilities). Importantly, it also includes government holdings of shares held for investments. Net financial assets is therefore a broader concept than net debt.

Now

Net Investment = Increase in Net Non-Financial Assets + Revaluations of Net Non-Financial Assets

So that (if ‘net financial liabilities’ is defined as a measure equivalent, but opposite in sign, to net financial assets)

Fiscal Balance = Increase in Net Financial Assets (NFA) + Revaluations of NFA
= Reduction in Net Financial Liabilities (NFL) - Revaluations of NFL

Whereas (if for simplicity we ignore any adjustments to the cash balance to eliminate net advances)

Cash Budget Balance = Reduction in Net Debt - Revaluations of Net Debt

Thus whereas the stock counterpart of the cash budget balance is net debt (where the full 'articulation' of stock and flow is broken by revaluations), the stock counterpart of fiscal balance is net financial liabilities (again with revaluations breaking full articulation). The difference between the cash budget balance and the fiscal balance is the flow counterpart of the difference between the two stock measures net debt and net financial liabilities.

Potentially, there might be a significant difference between targeting zero fiscal balance and zero cash balance. Viewed in stock terms, net liabilities are significantly larger that net debt. The most important difference between the two is employee liabilities, by far the most important component of which is superannuation liabilities. As an approximation, we could say that the change in net liabilities equals the change in net debt plus the change in employee liabilities. The annual change in employee liabilities tends not to be trivial. For 1999-2000, for example, the projected quantum was $1.156 billion (Treasury, 1999a: 4.15). This would suggest that the shift to targeting zero fiscal balance might represent a tightening of fiscal policy of non-trivial dimensions. Clearly, however, this depends upon a range of factors, including trends in public employment levels.

In practice, the projected difference between fiscal balance and cash balance at the Commonwealth level over the next couple of years is on average not great, and is significantly less than the amount of the increase in employee liabilities. This reflects the joint impact of a number of other lesser cash-to-accrual adjustments, the detail of which cannot be explored here for reasons of space. Suffice it to say that a number of the adjustment factors concerned are 'one off' in nature, so that the difference could become greater in future. Overall, it is not clear that it is justifiable to downplay the difference in the manner of the Commonwealth Treasury (Treasury, 1999a:11.14; 1999b, p 12).

4. The Significance of the Operating Result

In the private sector, accrual accounting originally arose precisely because of the meaninglessness of the 'cash' financial result. For a commercial enterprise to report annual profit by debiting expenditure undertaken during the year from cash revenues would be a complete nonsense. It would mean, for example, that any capital expenditure undertaken would directly reduce reported profit. The operating result in an accrual framework deals with this problem by calculating profits differently: expenses (expenditure attributable to that year, irrespective of when it takes place) are subtracted from accrual revenue (revenue attributable to that year). The operating result is, obviously, the most important measure in private sector financial reporting—the 'headline' measure, one might say.

It may be seen as somewhat paradoxical, then, that Australian governments which are enthusiastically adopting accrual accounting, and which are so enthusiastic about re-

modelling the public sector more along private sector line, do not appear to view the government operating result as a meaningful fiscal measure. Instead, these governments have continued to focus either upon the cash balance as their headline measure, or upon the closely-related quasi-cash/quasi-accrual fiscal balance concept.

There is a considerable degree of consensus, encompassing governments and economic analysts, about the two central goals of medium term fiscal policy: namely, intergenerational equity and fiscal sustainability. Fiscal sustainability might be defined as the avoidance of fiscal policy settings which, if maintained over time, would ultimately result in the burden of financial obligations rising to levels which would lead government to default, and which at some point prior to that would lead to a loss of confidence on the part of potential lenders.

A third, more recent, medium term fiscal policy goal which has received considerable (although by no means universal) support has, of course, been the enhancement of national saving.

In targeting the reduction or elimination of debt, Australian governments have believed themselves to be simultaneously pursuing both intergenerational equity and fiscal sustainability. The Commonwealth, for example, has made intergenerational equity an express criteria for the monitoring of fiscal policy under its *Charter of Budget Honesty*, and rationalises its rule requiring budget balance over the business cycle as a means whereby to 'ensure that future generations are not left with a rising public debt burden' (Treasury, 1999b: 7).

There is, however, an alternative perspective on the meaning of intergenerational equity, which is embodied in the so-called 'golden rule'. The golden rule can be taken, in a shorthand way[4], to assert that taxpayers in each time period should 'pay their way', in the sense that they should as a group pay for all expenditure from which they benefit, without requiring any subsidy from taxpayers in other time periods. The golden rule requires the contemporaneous tax funding of any expenditure the benefits of which are entirely enjoyed contemporaneously, but it rejects the proposition that capital expenditure should as a matter of principle be tax-financed at the time it is undertaken. Instead, it asserts that the costs associated with capital expenditure should be spread over time in accordance with the distribution over time of the benefits which that capital expenditure generates. It defends, within limits, the use of debt and other financial liabilities for this purpose. The golden rule has long roots in public finance practice. Perhaps its most notable recent manifestation has been in the UK, where the incoming Blair Labor government explicitly adopted the golden rule as its primary medium-term fiscal policy principle (UK Treasury, 1997).

To proponents of the golden rule, the accrual operating result is of great importance because it is the principle indicator of the intergenerational equity stance of fiscal policy. The golden rule requires that governments achieve a balanced accrual budget—in other words, a zero operating result—on average over the course of the business cycle (Robinson, 1998). If one were to disregard revaluations, a zero operating balance requirement could be expressed as a 'constant net worth' rule: or, more precisely, as a requirement that (real) public sector net assets should be maintained constant over the business cycle.

In the 1999-2000 budget, the Commonwealth announced a number of new supplementary fiscal objectives, one of which was 'improving the Commonwealth's net assets position over the medium to long term' (Treasury, 1999a: 1.15, 1.19). From the golden rule perspective, the pursuit of *increasing* net assets implies undue imposts upon current generations, and reflects what the federal Treasury correctly identified in 1995 as a misconceived 'presumption that increases in net worth are good' (Treasury, 1995: 5).

From the golden rule perspective, then, it is the operating result rather than fiscal balance which measures the intergenerational equity stance of fiscal policy. There remains, however, the question of the role of fiscal balance with respect to fiscal sustainability and national savings policy. The issue of fiscal sustainability is considered briefly further below, following discussion of certain issues related to the measurement of the operating result. National savings policy will not, however, be discussed, other than to say that, even if one believes that it is desirable on national savings grounds for the current taxpayers to make some contribution to the financing of net investment, it is hard to find any credible rationale for a policy of requiring current taxpayers to finance, as a matter of principle, *all* net public investment. Yet that is precisely what a policy of zero fiscal balance requires. Such a policy tends to result in the continued erosion of the public capital stock, or alternatively to lead to a pursuit of private financing of public infrastructure for reasons of financial appearance rather than efficiency. These issues, have, however, been subject to considerable discussion over recent years, and there is no need to rehearse them further here.

5. Measuring the Operating Result

Because from the golden rule perspective the operating result is such a crucial fiscal indicator, defining it properly is a matter of considerable importance. The significant difference between GFS and AAS 31 operating result concepts is therefore of some relevance. As mentioned above, the GFS net operating result and AAS 31 operating result before abnormals differ in their treatment of revaluations. GFS treats revaluations as an abnormal, whereas AAS 31 does not. The same methodological difference also arises in the treatment of profit/loss on sale of assets, which AAS 31 (by contrast to GFS) treats as a revenue item contributing to the operating result.

In justifying the exclusion of revaluations from the GFS net operating result, the ABS observes (1997: 9) that 'revaluations are largely outside a government's direct control'. This is certainly true of revaluations due to the impact of changing interest rate and exchange rates upon debt. Such revaluation are not only volatile, but potentially reversible over relatively short time periods. The distortionary impact of revaluations in an accrual context can, however, be much greater than the impact upon debt alone. Revaluations of physical assets can be large, and this is particularly the case when so-called 'deprival value' asset valuation methodology is employed. Some of these revaluations are not necessarily outside the government's direct control at all. A striking example of this can be seen in the Commonwealth's 1999-2000 accounts, in which the operating result was 'improved' by revaluations of almost $10 billion. The bulk of this $10 billion was accounted for by marking up of the Government's Telstra shareholding from book to market value, pursuant upon the planned privatisation (Treasury, 1999a: 1.20, 9.36).

From the ‘golden rule’ perspective, the inclusion of revaluations in the calculation of the operating result is manifestly a problem. To pursue a policy of balancing the accrual budget in the presence of significant revaluations would require that taxes (or current expenditure) be raised or lowered at short notice to offset revaluations (Robinson, 1998: 456). In the context of the Telstra privatisation, for example, to measure the operating result in such a manner while applying the golden rule would imply that the upward revaluation of Telstra shares be treated as the equivalent of ordinary tax revenue, and thus as revenue which could legitimately be spent immediately on consumption items. However, it is not only from the golden rule perspective that revaluations are a problem. It is, as noted above, precisely because revaluations are seen as a potential distortion of the underlying fiscal stance that they have been excluded from the Treasury’s fiscal balance measure. Amongst economist, then, there would appear to be a considerable degree of agreement that revaluations are best regarded as a potential source of ‘noise’ in the operating statement which should be excluded, along the lines of the GFS treatment[5]. The logic of the AAS 31 treatment of revaluations is, by contrast, something a mystery.

As noted above, AAS 31 includes profit/loss on sale of assets in the operating result, whereas the GFS does not. It can be argued that this also is quite inappropriate, although space does permit the issue to be properly addressed here. One of the major arguments advanced over recent years for the move to accrual financial reporting in the public sector has been the elimination of distortions and abuses related to asset sales transactions. It is therefore somewhat ironic that, while on the one hand the cash balance was adjusted to produce an underlying measure which excluded asset sales effects, we now have an accrual operating result into which asset sales distortions have been inappropriately and quite unnecessarily reintroduced as a result of the inappropriate recognition of both profit/loss on sale of asset and revaluations.

It will, incidentally, also be noted that, although revaluations have been netted off in the derivation of the Commonwealth’s fiscal balance measure, the same is not true of profit/loss on sale of assets. It is conceivable that this could become significant at some stage in the future.

The adoption of AAS 31 has no doubt been driven by a preference for consistency with private sector accounting practice. Yet accrual financial reporting—the primary function of which in the private sector is to report profit—necessarily performs a significantly different role in the non-profit public sector. Public sector accrual methodology ought to reflect this, rather than a pursuit of consistency with ‘generally accepted accounting standards’ as if this were an objective in its own right. It is somewhat curious, given this pursuit of consistency with private sector practice, that the accounting standard makers have at the same time so forcefully (and successfully) advocated the entirely inappropriate (Mayston, 1992; Robinson, 1998) ‘deprival value’ asset valuation methodology within the public sector, given that deprival value methodology is a close relative of the ‘operating capital maintenance’ concept which was decisively rejected by the private sector to adopt in the 1980s (Oppong and Cherry, 1987).

6. Fiscal Sustainability, Fiscal Balance and Net Financial Liabilities

We return now to the role of fiscal balance—and of its stock counterpart, net financial liabilities—as a medium-term fiscal policy indicator. Consistent with the analysis above, the term 'operating result' will from this point on be taken to refer to the GFS operating result measure (ie excluding revaluations and profit/loss on asset sales). Given this, it is precisely (rather than appropoximately) the case that

Operating Result = Fiscal Balance + Net Investment

It is obvious then that the golden rule implies not that the (structural) fiscal balance should equal zero, but that it should be equal in magnitude but opposite in sign to net public investment. This is simply to say that increases in net financial liabilites are acceptable from the intergenerational equity perspective only as a means of financing net investment. Thus, although the golden rule is commonly articulated as a stipulation that debt be used only for financing of capital expenditure, 'debt' in this context should be thought of simply as shorthand for net financial liabilities.

Thus in term of intergenerational equity, fiscal balance should not to be regarded as a headline fiscal indicator. There remain, however, the other two key medium-term fiscal goals of fiscal sustainability and the enhancement of national savings.

Advocates of the golden rule recognise that achieving a balanced accrual budget does not guarantee fiscal sustainability, and that it is therefore necessary to set explicit fiscal sustainability rules. One simple approach to this, which has been employed by the Blair Government, has been to stipulate that the ratio of net debt/GDP should not exceed some specific moderate ceiling. The idea is that net debt measures net non-discretionary financial commitments, while GDP acts as a proxy measure for the tax base from which these commitments must be met. The British have labelled this the 'sustainable investment' rule (UK Treasury, 1999).

This approach to assuring fiscal sustainability has merit, yet it is clearly somewhat inadequate. The logic of using net debt rather than gross debt as a fiscal sustainability measure is that if the government holds cash or private sector bonds, then these can be considered to offset some of its own debt. The case for such netting off is clear enough. However, governments also typically hold other type of assets which entitle them to receive cash flows in future, such as publicly traded shares. These also should be netted off. And, as accrual accounting highlights, there are also quasi-debt liabilities such as superannuation, which are just as significant from a fiscal sustainability point of view as is debt proper. The clear implication of this is that net financial liabilities is superior to net debt as a fiscal sustainability measure, and that it would be better to specify a British-style 'sustainable investment' rule in terms of the ratio of net financial liabilities/GDP.

This is not, however, to suggest that net financial liabilities is a comprehensive fiscal sustainability measure. The net financial liabilities measure does not include the expected future earnings of government business enterprises, and it is clearly unjustifiable to disregard the extent of a government's portfolio of business enterprises in assessing fiscal sustainability. It would therefore in principle be better to

use net financial liabilities *minus* the financial value of public enterprises in assessing fiscal sustainability. However, at a practical level, determining the financial value of public enterprises is a highly subjective matter[6], and the production of such a broader measure is not a practical proposition[7]. It therefore makes sense to employ the ratio of net financial liabilities/GDP as the principle fiscal sustainability indicator, while bearing in mind the significance of public enterprise earnings. In any event, as privatisation shrinks the size of the public enterprise sector, this qualification becomes less important[8].

From this perspective, it is an unfortunate aspect of the form of accrual financial reporting which has been implemented in Australia that it does not explicitly report net financial liabilities on the balance sheet. It is, moreover, somewhat paradoxical that, while inappropriately neglecting this stock measure in favour of a continued primary preoccupation with net debt, decision makers are at the same time unduly focussing upon its flow counterpart, fiscal balance.

7. Conclusion

The shift to an accrual basis represents a radical change in budget-sector government accounting. For advocates of the 'golden rule', this shift represents a golden opportunity to shift the emphasis of medium-term fiscal policy from a simplistic pursuit of debt elimination, to a more balanced focus upon intergenerational equity and fiscal responsibility. Concretely, such a policy shift would be expressed in the replacement of the former rule of structural underlying cash budget balance with a new rule of structural accrual balance. Instead, there has been a shift at the Commonwealth level to a new 'fiscal balance' headline measure. The watchword has been policy continuity rather than policy change. Notwithstanding this, it may be that the shift from targeting cash balance to fiscal balance will in time imply some tightening of fiscal policy.

There are significant differences between the GFS and AAS 31 treatments of revaluations and asset sales. The former is conceptually appropriate, whereas the latter is not. The Commonwealth Treasury has, to its credit, responded to this by eliminating revaluations in the derivation of the fiscal balance. This does not, however, deal with the problem at source, and does not help those who regard the operating balance as a key fiscal variable in its own right.

It will take time for the new accrual concepts to become widely understood in the community. This process will not be assisted by the existence of such significant differences GFS and AAS 31. Prior to the move to full accrual accounting, the accounting formats employed in budgets had to a large degree been harmonised with the GFS format, resulting in a great improvement in fiscal transparency. The new divergence between the two may therefore be regarded as regrettable and retrograde.

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[1] Net debt measures the excess of assets over liabilities in respect to bonds and holdings of money.
[2] The accuracy of this statement is unaffected by certain netting out which took place within the GFS 'cash' accounting presentation (namely, the netting out from expenditure of receipts from the sale of

goods and services, so as to produce the 'outlays' concept; and the netting of certain capital receipts to produce 'gross fixed capital expenditure'). It is irrelevant to the bottom line whether such receipts are as negative expenditures or as revenue.

[3] In 1997-98, the ABS introduced the 'underlying' cash balance—which deducted net advances (including asset sale receipts) from the cash balance—as its headline measure. The practice of adjusting the cash budget balance for the impact of privatisation receipts was also adopted in most states by the mid-1990s.

[4] This clearly conflates time-periods with 'generations', which is inappropriate in the real world where generations overlap. It can nevertheless be demonstrated that the golden rule represents a approximation of intergenerational equity principles with the great virtue of practicability in a world of uncertainty and high information costs (Robinson, 1996).

[5] Having said this, it may be noted that there is one potential exception to this principle, which perhaps merits closer examination elsewhere. This is the element of revaluations which reflects gains due to the changes in the price level. The reduction is the real value of net debt due to inflation is, for example, part of the 'revaluation' figure. To the extent that inflation tends to be more expected than unexpected, it could be argued that such gains out to be recognised in the operating result.

[6] The 'value' placed upon public enterprises in a whole-of-government balance sheet does not even purport to measure their net present value.

[7] It is also inherently ambigous if some of those enterprises possess unexploited monopoly power.

[8] The broader 'deficiency' of the net financial liabilities measure is obviously that it omits future *discretionary* (ie policy-determined) expenditure and revenue flows, and cannot therefore purport to be a a comprehensive measure of fiscal sustainability in the manner of, say, Buiter's (1990) ideal balance sheet (or, indeed, of the so-called 'generational accounts' (Auerbach et al, 1994)). There are, however, major practicality problems with such theoretically comprehensive measures. Moreover, it does matter quite considerably whether, say, an expenditure obligation is of a non-discretionary type (such as debt-servicing, accounts payable or contractual commitments to pay outsourced service providers) or whether, by contrast, it is discretionary program expenditure.