

IPSASB Consultation Paper on Advancing Public Sector Sustainability Reporting

Submission from:

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Preliminary View 1, Chapter 1

The IPSASB's view is that there is a need for global public sector specific sustainability reporting guidance. Do you agree?

Yes.

My focus in the comments that follow is on environmental sustainability because that is the field I focus on (not because social and cultural sustainability are not also relevant or important). My overall view is that IPSASB has an opportunity in this space, but successfully addressing the environment in a relevant way requires some rethinking of the standard accounting approaches.

Additional comments:

There is an urgent need for public sector reporting standards – covering both the ‘outside-in’ exposures of government to environmental parameters AND the ‘inside-out’ impacts of government on environmental outcomes (referred to also as ‘double materiality’).

There is also a related need for international guidance and standards for the information governments should present in their budgets and budget-related documents. Such guidance and standards would then provide a coherent and comprehensive basis for detailing the sustainability reporting requirements for governments.

It is not sufficient for a reporting standard to say: ‘Government should report performance against any sustainability-related information presented in its budget documents.’ Because of the major environmental impacts of governments’ fiscal policies there is a pressing need to develop guidance on, and then to rapidly codify, the sustainability-related information governments *should be expected to present with their budgets*.

For an illustration of the difference this makes, consider the contrast between the information stipulated in international standards for fiscal transparency (covering a broad scope of both ex-ante and ex post information), and IPSAS public sector accounting standards. This is also evident when comparing the proposals in the IPSASB discussion document against the OECD’s Framework for Green Budgeting. A number of governments have in fact started to disclose ex ante information on the estimated environmental impacts of their annual budgets (see Petrie, M., 2021, Environmental

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Governance and Greening Fiscal Policy: Government Accountability for Environmental Stewardship, Palgrave Macmillan, Chapter 4).

In paragraph 2.6, reference is made to IPSASB covering the inside-out perspective in a separate 'Reporting Sustainability Program Information' project. However, the coverage would only be partial: it relates only to whether proposed *expenditures* would positively or negatively contribute to climate change policies and objectives. But a critically important function and responsibility of government with respect to climate change is the use of policies to set the price of carbon emissions across the economy, the main instruments being carbon taxes or hybrid tax/regulatory instruments such as an Emissions Trading Scheme (ETS).

The proposed approach, of looking only at the environmental impacts of proposed expenditures, is partial with respect to environmental sustainability. It illustrates the problem of starting with existing or emerging accounting frameworks that are focused on the financial position of a reporting entity and trying to bolt on environmental considerations. Governments' interaction with the environment is far more multi-faceted than that.

In this regard, part of the justification put forward for the IPSASB initiative is that public funding and financing make up a significant proportion of global financial activity. But through the tax side of the budget, fiscal policy has a direct impact on 100% of global GDP. And through all dimensions of fiscal policy governments have major environmental impacts. Should not the objective be to reinforce Government accountability for these impacts to a broad constituency that goes considerably beyond the private investor community? At the very least, a starting point would be to add the defined users of General Purpose Financial Reporting in IPSASB's Conceptual Framework, of resource providers (including taxpayers) and service recipients (including those needing support for a just transition to a decarbonated economy).

Preliminary View 2, Chapter 2

The IPSASB's experience, processes and relationships would enable it to develop global public sector specific sustainability reporting guidance effectively. Do you agree?

Not at this time.

Even for the limited scope of reporting guidance proposed, more expertise may be required to add to IPSASB's experience, processes, and relationships with respect to the natural environment and the interactions between the government's fiscal policies and finances and the environment. It would be risky – both substantively and in terms of legitimacy - to proceed without augmenting IPSASB's resources in these fields. At the least this could be done by selectively adding people to its networks and processes.

Specific matter for comment 1 – Chapter 3

If the IPSASB were to develop global public sector specific sustainability reporting guidance, please tell us what topics you see as most pressing in your jurisdiction and why these should be prioritized by the IPSASB.

The 'inside-out' perspective, as noted above, is urgent in all jurisdictions.

While the Task Force on Climate-related Financial Disclosures (TCFD) confined its scope to the outside-in perspective, its mandate was to ensure financial sector stability, an objective that should be only one of a number of priority objectives for governments. Governments play vital environmental stewardship roles on behalf of the country, typically set out in the legal framework.

Their taxing, spending and regulatory functions have major environmental impacts, both positive and negative, and both intended and unintended.

It would be incomplete and misleading to limit public sector sustainability reporting to an outside-in perspective. More thought should be given to the fact that governments' interaction with all players whose behaviours affect the environment go way beyond what would normally be captured by the government reporting entity.

Even with respect to the private financial sector, the EU's Non-Financial Reporting Directive has introduced a requirement for companies to report both on how sustainability issues affect their performance, position, and development (the 'outside-in' perspective), and on their impact on people and the environment (the 'inside-out' perspective).

The IPSASB proposal appears to be to proceed in two streams: the first, developing public sector sustainability reporting guidance confined to outside-in; and second to develop partial inside-out reporting guidance with respect to government spending only.

A preferable approach would be to develop these initiatives as part of a broader international initiative involving a much wider set of international fiscal and environmental standard setters. The objective should be to develop a broader, more comprehensive, and coherent set of international standards for green fiscal policy/green budgeting, along the lines being developed by the OECD and other international actors such as the IMF, World Bank, UNEP, and UNDP.

In short, what is needed is a TCFD-type taskforce approach to setting green budgeting and reporting standards for governments (as called for in Petrie, 2021). IPSASB would have an important contribution to make to such a Taskforce.

Such an approach might perhaps initially focus on climate change but rapidly also develop a framework to cover all environmental domains (in similar manner to the comprehensive coverage of the EU taxonomy of sustainable environmental outcomes).

A final comment here relates to the emphasis in the consultation paper on reporting against the SDGs. The SDGs contain a very large number of indicators, some of them in conflict with each other while many others are of moderate or low relevance or even irrelevant to any particular individual country.

The core accountability framework for government reporting should be with respect to the most important environmental outcomes in each country. In all countries this will include climate change mitigation and adaptation. But in other environmental domains the top priority outcomes and indicators will vary depending on country circumstances. The SDG-template should not be imposed in the core budget and fiscal reporting accountability documents of all national governments – the documents in which they report to their legislatures, citizens, business communities, financial markets etc. Comprehensive SDG-specific reporting can best be handled through separate supplementary reports and be incorporated in core budget and reporting documents where and to the extent individual governments and their various constituencies see value in them doing so.

Preliminary View 3, Chapter 3

If the IPSASB were to develop global public sector-specific sustainability reporting guidance it proposes applying the framework in Figure 5. In developing such guidance, the IPSASB would work in collaboration with other international bodies, where appropriate, through the application of its current processes. Do you agree with the IPSASB's preliminary view?

Not at this time. See above.

Preliminary View 4, Chapter 3

If the IPSASB were to develop global public sector specific sustainability reporting guidance, it would address general sustainability-related information and climate-related disclosures as its first topics. Subsequently priority topics would be determined in light of responses to this consultation paper as part of the development of its 2024-2028 Strategy.

Do you agree?

Subject to incorporating double materiality, it probably makes sense to focus initial work on the GHG emissions impacts of fiscal policies, and climate change adaptation policies - given the materiality and urgency of the climate crisis, the scientific understanding of the causes of climate change, the developing ability to measure and report impacts, and the fact that climate change is relevant for all countries.

Preliminary View 5, Chapter 4

The key enablers identified in paragraph 4.2 are needed in order for the IPSASB to take forward the development of global public sector specific sustainability reporting guidance. Do you agree with the IPSASB's preliminary view?

No.

As argued above, there is a priority need to inject expertise in environmental sustainability and the interactions between government fiscal policies /public finances and environmental sustainability.

This is likely to require more resources.

Overall, the IPSASB initiative is welcome in its urgency, in its potential useful contribution to outside-in ex post government reporting, and its potential partial contribution to inside-out accountability with respect to government spending.

However, as currently outlined, the initiative could be counterproductive. IPSASB appears to be attempting to rely too much on its existing resources and approaches. The initiative would be strengthened if it were developed as part of a wider approach to public sector sustainability and environmental governance involving double materiality and ex ante elements as well as ex post reporting. This requires the involvement of a much wider range of actors from the outset.