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David Heald & Ron Hodges

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Accounting for government guarantees: perspectives on fiscal transparency from four modes of accounting

DAVID HEALD^{a*} and RON HODGES^b

^a*Adam Smith Business School, University of Glasgow, Glasgow, UK;* ^b*Birmingham Business School, University of Birmingham, Birmingham, UK*

Government guarantees are increasingly important as a policy instrument in public infrastructure investment and to assist the banking and financial sectors following the global financial crisis. This paper analyses how different modes of accounting characterize such guarantees in the contexts of public sector financial reporting, statistical accounting, budgeting and long-term fiscal projections. Guarantees are difficult to specify for accounting treatment and consistent conceptualization of liabilities. These difficulties make it attractive for governments to treat obligations as off-budget and off-balance sheet contingent liabilities, rather than recognize them in financial statements and statistical accounts. Miller and Power's territorializing, mediating, adjudicating and subjectivizing roles of accounting are utilized to analyse the reporting of UK government guarantees. Provisioning for guarantees is complex in financial reporting statements and often absent in national accounts, a deficiency which Eurostat has attempted to address by devising the concept of standardized guarantees and by securing more disclosure of contingent liabilities. There is potential for future research especially where there is greater mediation between the four modes of government accounting.

Keywords: guarantees; government financial reporting; statistical accounting; fiscal transparency

1. Introduction

Two significant contemporary developments are shaping the public sectors of many economies: austerity policies following the 2008 global financial crisis (Hodges and Lapsley 2016) and ways that governments account for their activities, notably the recognition of increasing categories of assets and liabilities (Irwin 2016). The relationship between these developments is contested; accounting developments are neutral devices designed to enhance transparency in public sectors (Warren 2015) or biased devices promoting the neo-liberal agenda (Ellwood and Newberry 2007).

*Corresponding author. Email: david.heald@glasgow.ac.uk
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Governments may substitute, for direct spending, mechanisms not recorded as public expenditure. This paper considers the increasing importance of government guarantees as one such mechanism, for example to support or replace direct public investment in infrastructure. A government guarantee is an arrangement in which a government entity undertakes payment of a debt or performance of an obligation in the event of a default by the primary creditor. Guarantees can be explicit (fully articulated) or implicit (derived from unstated understandings) and contractual (legally enforceable) or non-contractual (promises).

Various schemes involving guarantees became a feature of economic recovery packages after 2008: for example, in the UK, Help-to-Buy mortgages and UK Guarantees for Infrastructure. While such schemes existed before 2008, the scale of guarantees and their prominence as a policy instrument have grown significantly. Government guarantees to private firms or to public entities classified outside the statistical accounting aggregate of ‘general government’ might constitute government obligations, without being recognized as government liabilities. A high-profile example in the UK is the proposal to build and operate the nuclear power station at Hinkley Point C (HPC) in south-west England.¹

Our paper aims to provide an understanding of how accounting for such guarantees has the potential to promote or hinder fiscal transparency. We provide UK examples of the recognition or disclosure of government guarantees and call for further research on the accounting for these potential obligations. We restrict coverage to explicit guarantees.²

The conceptual contribution of the paper derives from Miller and Power (2013). They perceive accounting as promoting ‘economization’ through which individuals, activities and organizations are constituted as economic actors and entities (p. 560). We employ the four roles of accounting from their framework – territorializing, mediating, adjudicating and subjectivizing – as a conceptual lens to analyse uncertainties and technical complexities surrounding the recognition or disclosure of guarantees. We examine the treatment of guarantees using four modes of government accounting: (1) financial reporting based on accounting standards, (2) statistical accounting leading to the publication of national accounts, (3) budgetary accounting and (4) long-term fiscal sustainability projections.

The paper also considers the development of guarantees in a context of fiscal transparency and the modernization of government accounting. Fiscal transparency has become an internationally accepted doctrine, promoted by official agencies such as the International Monetary Fund (IMF) and non-governmental organizations such as the International Budget Partnership as a corrective to the build-up of government debt:

Fiscal transparency – the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances – is critical for effective fiscal management and accountability. It helps ensure that governments have an accurate picture of their finances when making economic decisions, including [that] of the costs and benefits of policy changes and potential risks to public finances. It also provides legislatures, markets, and citizens with the information they need to hold governments accountable (IMF 2014).

Fiscal transparency as the basis for external surveillance is necessary when there are international spillovers of government deficits from one nation state to another, particularly in currency unions such as the euro. Fiscal surveillance intensifies the role of transparency as a disciplinary technology where the economic actor subjected to surveillance is a sovereign state (Heald 2013). External surveillance raises political questions about the legitimacy of technocracy that can override democracy and technical questions about the accounting systems on which surveillance is based.

The modernization of government accounting has focused attention on the assets, liabilities, revenues and expenses of the public sector and the basis on which these should be recognized and

measured. In some jurisdictions, this has involved adopting or adapting accounting methods designed originally for private sector (for-profit) activities, a process that could be considered inappropriate (Ellwood and Newberry 2006). Particular issues in adopting or adapting private sector techniques include the application of fair values (Hodges 2016) and accounting for heritage assets (Ellwood and Greenwood 2016). The specification, recognition and measurement of government liabilities become as important as for assets when governments contract with private firms for service delivery or write financial instruments, such as guarantees, for facilities made available at government expense.

The move to accounting standards-based financial reporting has emphasized the notion of a government balance sheet and whole-of-government accounts (WGA) (Chow et al. 2007). The importance of government-wide consolidation has been stressed by the former Chair of the International Public Sector Accounting Standards Board (IPSASB) (Bergmann 2014) and figures prominently in the case made by Eurostat for its European Public Sector Accounting Standards project (Heald and Hodges 2015). However, guarantees placed outside the consolidation boundary may avoid recognition as liabilities.³

In the next section, we provide the conceptual structure of the paper. Section 3 outlines our research methodology. Section 4 presents empirical findings on the treatment of guarantees under each of the modes of government accounting in the UK. Section 5 interprets these findings in terms of the roles of accounting. Section 6 draws conclusions and implications for further research.

2. Conceptual structure

This section summarizes the Miller and Power (2013) framework through discussion of the meaning of economization and the related roles of accounting. It then analyses the four modes of government accounting. We devise a Government Reporting Preferences Ladder to contrast government preferences for avoiding recognition and disclosure with the preferences of surveillance organizations for obligation recognition and disclosure.

Economization and the roles of accounting

Miller and Power (2013) perceive accounting as promoting the economization of both institutional and individual actions. Economization, at the institutional level, results in organizations, including multinational groupings of states (such as the EU), sovereign states and other public sector entities (such as sub-national levels of government), being constituted as economic entities. Economization, at a personal level, causes individuals to ‘... think of themselves and others as beings endowed with choices and decisions that can be rendered calculable and governable ...’ (pp. 560–1). This links to how such choices and decisions are represented by the various modes of government accounting.

The economization of entities promotes the territorializing, mediating, adjudicating and subjectivizing roles of accounting. Territorializing makes explicit what is ‘government’ by delineating its boundaries, using financial reporting standards in WGA, and through the boundary of general government in statistical accounting. It determines what are recognized and measured as ‘financial activities’ by the promotion of particular modes of government accounting (although the quantification of these activities may differ between the modes). The result of these territorializing processes is that the activities of organizations are formulated as cost or profit centres in sectors such as defence (Barton 2004) and healthcare (Ellwood 2009).

The mediating role links together actors and organizations in a collective endeavour in which accounting provides numbers treated as comparable even when the activities to which they attach

are not comparable. For example, the levels and ratios of debt of EU Member States are treated as comparable even though their constitutional, political and environmental conditions vary. Miller and Power (2013, p. 582) suggest that ambiguity in this mediating role may be important to enable accounting techniques to take hold. Ambiguity might be created by different perspectives on how accounting is to be implemented, such as by loose coupling the accounting processes from economic ideals or intended outcomes (Marriott et al. 2011), or by the construction of measures that differ between the four modes of government accounting (Heald and Hodges 2015).

The adjudicating role develops because accounting provides a basis for the evaluation of the performance of calculable spaces. This may be particularly significant in assessing the measurement of success or failure (Miller and Power 2013, p. 584). The adjudicating role is formalized by the development of financial targets, which become accepted as norms within communities and which are used as the basis for systems of fiscal surveillance and discipline. For example, EU Member States have been set limits for annual deficits (on a statistical accounting basis) of 3% of GDP and general government gross debt of 60% of GDP (European Council 2008, pp. 279–80). If these levels are exceeded, a Member State may be forced into an Excessive Deficit Procedure (EDP), resulting in greater EU scrutiny and possibly external financial control of national budgets. Avoiding this level of deficit or debt becomes highly significant for political and economic reasons. In contrast, whole-of-government financial reporting on the IFRS/IPSAS basis is less well established, so that its adjudicating role is more limited. There are no EU targets based upon the financial reporting mode of accounting, reflecting the lack of comparable information and that economists, rather than accountants, undertake fiscal surveillance.

The subjectivizing role of accounting refers to how organizations and individuals are subject to regulation and control by others, while retaining the right to choose within constraints deriving from financial norms or standards. For example, governments might have the freedom to choose to support public infrastructure projects through direct government funding, through Public–Private Partnerships (PPPs) or by guaranteeing the loans or future income streams of private corporations, with the treatment in the various modes of government accounting influencing the choice between these alternative forms of support. The subjectivizing role creates ‘obligations to perform’ (Miller and Power 2013, p. 583). Yet these obligations can be resisted by various behavioural responses which might lead governments to misrepresent their financial position (Koen and van den Noord 2006) as a mechanism for coping with the subjectivizing role of higher political authorities (Cohen et al. 2015). High levels of formal compliance might be accompanied by manipulation around accounting boundaries, such as the general government boundary in statistical accounting (Irwin 2012), and by arbitrage between accounting standards similar to that in accounting for PPPs (Hodges and Mellett 2012).

Four modes of government accounting

In addressing guarantees, we focus on four modes of government accounting that each result in financial statements available in the public domain.

Financial reporting, on cash, accruals or some hybrid basis, has parallels with financial reporting in the private sector and is performed by accountants and auditors. In the UK, the particular government department responsible for the guarantee will recognize or report the guarantee in its own departmental annual report and accounts and the effects are consolidated within the WGA. The objective of government financial reporting is to provide information for the purposes of accountability and decision-making (IPSASB 2014a, p. 15). Financial reporting is entity-oriented, based on detailed and systematic records. The accounting treatment of a transaction might differ between counterparties.⁴ The potential for inconsistency in reporting increases when EU governments use different bases of financial accounting (Ernst and Young 2012).

Statistical accounting, the basis for macro-fiscal policy and external surveillance, is performed by statisticians, public servants working in government statistical offices. Statistical accounting uses financial reporting data as input and employs estimation of macroeconomic data in the compilation of the national accounts. Transactions must be treated symmetrically; otherwise, sectors will not balance across the national accounts. This leads to what has been termed the ‘principle of quadruple-entry’ (Lequiller 2015, p. 33), where transactions are recognized in double-entry terms in two sectors.⁵

Two institutional differences between statistical accounting and financial reporting have a major impact. First, national accounts are prepared in accordance with the United Nations System of National Accounts (SNA) or, within the EU, the European System of National and Regional Accounts (ESA). The statistical accounting model is one of periodic revision, rather than the continuous evolution of IFRS and IPSAS: 2014 was the transition year from ESA95 to ESA10 (Eurostat 2013a). Between these major revisions, changes are relatively modest, designed to provide clarifications and fill the gaps in relation to emerging issues. Second, statistical accounting is regulated intergovernmentally; for example, the periodic major revisions of ESA require the approval of the European Council and the European Parliament.

Differences in the numbers produced by financial reporting and statistical accounting owe a considerable amount to their separate paths of development. Statistical accounting measures are generally based on the recognition of financial assets and liabilities. For example, in the calculation of UK government net debt, estimated liabilities (such as provisions for future pensions or guarantees) are typically excluded from liabilities and non-financial assets (such as property, plant and equipment) are not deducted. In recent years, there has been a conscious effort to establish whether differences in treatment have a logical basis (reflecting different purposes and uses) or are historical accidents that can in time be eliminated (IPSASB 2014b).

Government budgeting is the basis of *ex ante* control and, in democratic countries, the basis of legislative authorization of public spending. It is performed by public servants of varied bureaucratic, legal and accounting backgrounds and is conducted in a public arena in democracies. Budgeting is less standardized than either financial or statistical accounting, reflecting its varying functions as a tool for targeting and authorizing expenditure and aiding planning, prediction, coordination and control (Heiling and Chan 2012, van Helden and Hodges 2015, pp. 109–34). Comparability between countries is low, remaining country and institutionally specific in terms of basis and coverage. For example, a survey of government budgeting of OECD countries reports 21 national governments using a cash basis of budgeting and appropriations (some modified for commitments and guarantees), 10 countries using an accrual basis (some with simplified or incomplete variations) and 3 countries using a mixture of cash and accrual systems (Moretti 2016). There is variable ‘distance’ between the budget numbers and those produced by financial reporting and statistical accounting. The UK Treasury’s (2009) ‘Clear Line of Sight’ project placed much emphasis on aligning budgeting, financial reporting and statistics, but this is one of a few outliers.

Governments defend their budgeting territory on the grounds of national sovereignty, reflecting that this mode of accounting has traditionally received prominence in national political discourse and because of its links to democratic institutions (Gray et al. 1993, Heiling and Chan 2012). Forward-looking documents shape ‘who gets what’ in resource allocations, with high political salience. Accounting standard setters have a limited impact, though they may attempt to influence government budgeting indirectly, as in IPSAS24 on the presentation of budgetary information in financial statements. Where guarantees become important in this context is when they are off-budget, so that potentially large future expenditures are not considered within the budget process.

Fiscal sustainability projections are constructed on a cash basis to assess sustainability by economists working in finance ministries, central banks, and international and supranational agencies. This mode of accounting has gained prominence in several countries, in part because of fears about demographic ageing and healthcare costs. The 5-year medium-term economic forecast provides a platform for 45 years of cash projections, to give 50-year projections alongside infinite-life projections of sustainability on current policies. Inevitably, such projections must rest on highly stylized assumptions and encounter difficulties in specifying exactly what constitutes current policy (IPSASB 2013, paras 43–51). The output is the calculation of fiscal gaps that indicate by how much the current fiscal stance needs tightening to secure fiscal sustainability.

A significant contribution of the early UK Treasury work on fiscal sustainability modelling (Eich 2008) was its schematic presentation of the relationship between modes of government accounting. The financial reporting accrual-based balance sheet recognizes ‘future liabilities from past activities’. Long-term projections also recognize (a) ‘future liabilities incurred in the future’ and (b) future revenues, both of which fail the recognition tests of financial reporting and statistical accounting. Such projections therefore have a comprehensive canvas, making it possible to consider simultaneously future social benefit expenditure and taxation revenue.

In summary, the relationships between these four modes of government accounting are complex. Government financial reporting in some OECD countries has moved towards IFRS/IPSAS-based systems of accrual accounting. Some countries display alignment between budgeting and financial reporting practices. There is a greater mutual awareness of the respective roles of government financial reporting and statistical accounting, and more willingness to eliminate those differences in treatment that are not the consequence of differences of principle. Less widespread are fiscal sustainability projections, notwithstanding increased concern about the intergenerational implications of accumulating debt and other government liabilities.

Government reporting preferences ladder for guarantees

Constrained by difficult fiscal positions and sometimes by ideological preferences for private rather than public activity, governments seek ways of financing activities that are not recognized. Such behaviour can be predicted from a public choice view of government as self-interested budget maximizer, or from observations of government behaviour when under fiscal pressure, evidenced by publications from the IMF (Irwin 2007), the OECD (Koen and van den Noord 2006) and the World Bank (Brixi and Schick 2002). This search to avoid accounting recognition or disclosure of liabilities coexists with government pronouncements in favour of fiscal transparency.

Consideration of relevant literature, documentary evidence and knowledge of off-balance sheet reporting practices, such as for PPPs, led to the devising of the ‘Government Reporting Preferences Ladder for Guarantees’ as a diagnostic tool.

Table 1 is interpreted in the following way. Moving from left to right, the columns distinguish between: whether guarantees are recognized in government financial statements, disclosed within notes but not recognized, or neither recognized nor disclosed. The rows can be thought of as the rungs of a ladder, with the bottom rung of the left-hand column representing recognition of the guarantee as a liability. The first right-and-upwards move from liability recognition to disclosure as quantifiable contingent liability reduces visibility. This is compounded by subsequent vertical moves up the second column as the concept of ‘remote’ is applied and liabilities become unquantifiable. A further move is to the right column, for those guarantees falling outside both IAS37 and the Treasury’s (2015) requirements in *Managing Public Money*, leading to non-disclosure as well as non-recognition. Finally, at the top of the third column, there is no disclosure because it is held

Table 1. Government reporting preferences ladder for guarantees.

Recognized in financial statements	Disclosed within notes but not recognized	Neither recognized nor disclosed
	Remote unquantifiable contingent liability ^a	No government obligation
	Unquantifiable contingent liability	Remote quantifiable or unquantifiable contingent liability ^b
	Remote quantifiable contingent liability ^a	
	Quantifiable contingent liability	
Liability		

^aIn the 'Disclosed' column, contingent liabilities classified as remote are required to be disclosed under *Managing Public Money* (Treasury 2015) when reported to Parliament, though not under IAS37/IPSAS19.

^bItems in the 'Not Disclosed' column are not required to be disclosed under either *Managing Public Money* (Treasury 2015) or IAS37/IPSAS19. However, a government committed to fiscal transparency might disclose information on a discretionary basis.

Source: Author construction.

that no government obligation exists. The treatment therefore ranges from liability recognition to neither recognition nor disclosure.

There is strong pressure from surveillance organizations and civil society organizations for recognition or disclosure to support transparency and accountability. In contrast, government preferences for movement in Table 1 are usually to the right and upwards. This influences policy design and the choice of instruments. The tightening of financial reporting and statistical accounting regulations in one arena, such as for PPPs, may provoke financial innovation in another. Guarantees are part of a new generation of fiscal risks, particularly given widespread political enthusiasm for infrastructure spending that cannot be fitted within budgetary constraints (Irwin 2007).

At the bottom left of Table 1, a guarantee is recognized as a government liability. If it can be shifted from the accounts to the notes, the transaction has escaped recognition within the financial reporting statements and probably also excluded from the aggregates generated by statistical accounting. Exclusion from the headline numbers in comprehensive income statements and statements of financial position might diminish the likelihood of publicity. In the private sector, '... information recognised in the financial statements receives more attention than disclosures in the notes ...' (Cascino et al. 2013, p. 10), while in the public sector, avoiding the recognition of liabilities becomes more appealing to policy-makers when government balance sheets attract attention.

In the Disclosed column, information is placed into the public domain via the notes to the financial statements. This may be required by IAS37/IPSAS19 or by specific requirements imposed by the Treasury (2015) in *Managing Public Money*, some of which originated from commitments made to the House of Commons Public Accounts Committee. When the contingent liability is unquantifiable, that treatment further reduces the likelihood of hostile media coverage that likes to shock with large numbers. IAS37/IPSAS19 make the distinction between contingent liabilities and remote contingent liabilities, but do not differentiate clearly between them.

In the third column, there is no obligation to report, either because the contingent liability is outside the scope of IAS37/IPSAS19 and *Managing Public Money* or, at the top right of the ladder, there is nothing to report because the government is deemed to have no obligation. If transactions are structured so that it can be held that there is no obligation, the government is achieving policy objectives in a way that can be portrayed as costless.

3. Research methods

To investigate empirically how a government accounts for guarantees, we employed documentary analysis and in-depth interviews with participants. We began with an analysis of documentary evidence on the development of accounting for guarantees under the four modes of government accounting. There were several major sources of information. The UK Treasury leads in the production of the WGA, which are available on its website, together with its own departmental accounts. The EC and Eurostat websites provide information on the methods of statistical accounting used in the EU, together with disclosures of contingent liabilities of Member States, including guarantees. The ONS website provides specific UK data on statistical accounting. The UK budgetary information is available on the Treasury website. Information on the development of sustainability projections is available from the EC; in 2010, the Office for Budget Responsibility (OBR) took over UK projections on fiscal sustainability.

We sought next to confirm and supplement our understanding gained from public domain sources through interviews with those involved in policy development and the application of accounting for guarantee arrangements in government. We benefited from participant-observer or observer status in certain arenas where policy and standard setting develop. We were able to identify key actors in the development of public sector accounting reforms through prior personal contacts or through mutual contacts. We gave undertakings of non-attribution, in view of the continuing developments of policy and regulations in this area and the controversies surrounding some of the schemes. We do not identify the particular institutions represented by our interviewees, as the specialized nature of these enquiries would make some individuals recognizable. We decided not to record the interviews, but to rely instead on handwritten notes, so we provide our interpretation of the perspectives of interviewees, rather than using quotations drawn from transcripts.

We conducted 15 interviews between June 2014 and March 2016, with some followed up by email, telephone or further interviews. The interviewees represented statistical offices, government auditors, accounting practitioners and professional bodies in the EU and the UK. We prepared for each interview on a stand-alone basis, in that we anticipated that each interviewee would have varying knowledge of accounting procedures under the four modes of government accounting. For example, discussions with those from statistical offices concentrated on statistical accounting and contingent liabilities, those with the professional bodies on financial reporting and those with accounting practitioners on aspects of budgeting. The interviews were designed to confirm or reject our understanding of particular issues, to guide us towards further public domain sources of evidence and to help us to understand the technical and political intricacies underlying the accounting processes (Marginson 2004).

4. How a government accounts for guarantees

This section analyses how a government accounts for guarantees under each mode of accounting. The sequence of exposition is as follows: accounting standards-based financial reporting, statistical accounting, government budgeting and fiscal sustainability projections.

Financial reporting

Accounting for guarantees under IFRS and IPSAS derives from a number of standards. Obligations from guarantees may be recognized as provisions or disclosed as contingent liabilities (IAS37/IPSAS19). Some guarantee arrangements are recognized or disclosed as financial instruments (IAS39, IFRS7 and 9/IPSAS28-30) or accounted as insurance contracts (IFRS4).

Guarantees relating to entities controlled by a government may be consolidated into the WGA (where that exists) or treated as some form of joint arrangement (IFRS3 and IFRS10-12/IPSAS35-38).

IAS37 and IPSAS19 require the recognition of a liability if an outflow of resources is expected, provided that a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date (IAS37, para. 36; IPSAS19, para. 44). There may be ‘extremely rare’ cases (IAS37, para. 25; IPSAS19, para. 34) where no reliable estimate is available, in which case the circumstances are disclosed as a contingent liability. Whether such circumstances are as rare in practice as envisaged by standard setters may be challenged. For example, a long-period guarantee might result in an outflow of resources at some future time, given the impact of economic cycles. The timing and extent of this outflow may rely upon estimations, using broad economic assumptions within financial models. This resonates with the distinction between the measurement of liabilities (based on verifiable evidence) and the role of estimation to prescribe an accounting value in Barker and McGeachin (2013). They suggest (p. 593) that a measurable attribute exists using fair value, but only if there are active markets to provide an observable measure. This distinction between measurement and estimation is more important in the case of liabilities than of assets because the implicit conservatism of accounting has asymmetric effects. Unquantifiable assets will fail the recognition test, leading to conservative reporting of net assets. Excluding liabilities or recognizing them at reduced values has an anti-conservative effect, leading, *ceteris paribus*, to an overstatement of net assets.

An obligation not resulting in recognition requires disclosure as a contingent liability (IAS37, paras 27–8; IPSAS19, paras 35–6), unless the possibility of any outflow of resources is ‘remote’ (IAS37, paras 84–92; IPSAS19, paras 100–9). There is no definition provided in the standards of what is remote, as opposed to merely unlikely, but the intention appears to be to avoid disclosure of potential obligations that are so obscure or unlikely that their reporting would be misleading. Government departments need Treasury approval before entering into guarantee arrangements (Treasury 2017a), such approvals then being reported to Parliament as a Written Ministerial Statement (Rudd 2015). Contingent liabilities such as guarantees (including those for which the risk of crystallization is remote) are required to be reported in departmental accounts and in the WGA (Treasury 2017a, p. 10). Certain guarantees might fall within exemptions from disclosure on grounds of impracticality or where disclosure would prejudice the position of the entity (IAS37, paras 91–2; IPSAS19, paras 108–9).

A financial guarantee contract exists when specific payments are required to reimburse the holder of the guarantee under the terms of a debt instrument (IAS39, para. 9; IPSAS29, para. 10; IFRS9, p. A323). Such contracts are recognized initially at their fair value, which is negative and creates a liability. The liability is restated subsequently at the higher of (a) the amount recognized under IAS37/IPSAS19 and (b) either the amount initially recognized less cumulative amortization or at fair value, with any change in value recognized through the income statement (IAS39, para. 47; IPSAS29, para. 49c; IFRS9, p. A313). Groups of financial guarantee contracts with similar terms and risks may be assessed on a portfolio basis (IAS37, para. 39).

Finally, guarantees may be accounted as insurance contracts under IFRS4. In the UK, the only government department applying IFRS4 to significant contracts is UK Export Finance (UKEF), the UK’s export credit agency (Financial Reporting Advisory Board 2017). There are various liability adequacy requirements, linked to the best estimate of the expenditure required to settle present obligations (IFRS4, paras 15–9).

The UK Treasury has indicated that most government guarantees are recognized initially at fair value under IAS39 and subsequently at amortized cost or at expected value under IAS37 (Financial Reporting Advisory Board 2013, paras 78–9). The initial recognition of a provision

equates with the price charged for the guarantee, which is intended to take into consideration expected losses. The NAO questioned whether this reflects fully the risks incurred and recommended that the Treasury develop an additional pricing methodology (NAO 2015, p. 11). Although the Treasury (2017a) published new guidance on contingent liability approval, it has not followed this recommendation.

The UK Treasury (2017b) accounts for the year ended 31 March 2017 and the WGA for the year ended 31 March 2016 (Treasury 2017c), together with earlier editions, provide information on financial guarantee obligations. Table 2 provides a summary of the provisions and contingent liabilities from 2010–11 to 2016–17.

The *Help to Buy mortgage guarantee scheme* provides guarantees for around 15% of mortgage loans of personal buyers of properties costing up to £600,000. The Treasury's accounts report maximum potential losses of £1.443 billion at 31 March 2017, with £89 million recognized as a financial guarantee liability. The scheme closed to new applications after June 2017, and there have been few claims under the scheme (Treasury 2017b, p. 90).

The *National Loan Guarantee Scheme* (NLGS) was launched in 2012 to provide guarantees to participating banks to reduce the costs of borrowing by small businesses. The contingent liability of £2.9 billion represents the total bonds issued under this scheme. The NLGS closed in May 2017, and both the provision and the contingent liability are likely to be eliminated by the end of March 2018 (Treasury 2017b, pp. 89–90).

The *UK Guarantees Scheme* provides '... an unconditional and irrevocable guarantee to the lenders to infrastructure projects ...' (NAO 2015, p. 5). On 31 March 2017, eight projects had been supported leading to a provision of £109 million and related contingent liabilities of £1.1 billion. There are further projects pre-qualified for future approval, including HPC, which are likely to increase these obligations substantially in future years (Treasury 2017b, p. 89).

The *Credit Guarantee Scheme*, which was initiated following the banking crisis, expired in 2011–12. Deposit Guarantees are largely eliminated from 2013–14 as a result of the consolidation of Northern Rock and Bradford & Bingley into the Treasury accounts.

Table 2 illustrates that the contingent liabilities of the UK Treasury reduced significantly by 2013–14, but have begun to increase as a new generation of guarantee schemes is implemented. Strikingly, provisions for financial guarantees are small but contingent liabilities are very large.

Similarly, contingent liabilities (middle column of the Government Reporting Preferences Ladder in Table 1) dominate provisions for guarantees (left column) in the WGA. Guarantees to support financial institutions, following the banking crisis, have reduced as a result of the release of guarantee obligations to Royal Bank of Scotland and the sale of public shareholdings of Lloyds Banking Group. Provisions for financial guarantees are around £4 billion up to 2013–14, relating largely to Network Rail (the railtrack operator in Great Britain) which was reclassified into the public sector from 2014–15. The WGA provision in 2014–15 and 2015–16 was only £0.4 billion; the make-up of this is not disclosed but would include provisions made in the Treasury's own accounts. Other WGA provisions have increased substantially from 2010–11 to 2015–16, reflecting factors such as increasing expected payouts for nuclear decommissioning and clinical negligence, new government obligations under pension protection schemes and a lower interest rate used in 2015–16 to discount future obligations.

Whole-of-government quantifiable contingent liabilities under IAS37 and quantifiable remote contingent liabilities reported to Parliament are also shown in Table 2. As with provisions, between 2010–11 and 2012–13, the disclosures reflect the unwinding of government guarantees following the banking crisis. Increases in these contingent liabilities since then represent a combination of higher potential payouts and lower discount rates. The WGA gives details of the nature of the more significant items, together with a descriptive list of non-quantifiable contingent liabilities (Treasury 2017c, p. 106–13).

Table 2. Government financial reporting of guarantees.

Years ended 31 March	2011	2012	2013	2014	2015	2016	2017
Treasury Accounts (£ million)							
Financial Guarantee Provisions	1,540	600	763	206	291	270	201
Of which:							
Help-to-Buy mortgage guarantees				9	53	84	89
National Loan Guarantee Scheme			246	185	125	64	3
UK Guarantees Scheme				7	113	122	109
Credit Guarantee Scheme	941	41					
Deposit Guarantees (Northern Rock and Bradford & Bingley)	599	559	517	5			
Contingent Liabilities	135,600	38,000	16,755	3,150	4,416	4,967	5,443
Of which:							
Help-to-Buy mortgage guarantees				95	631	1,067	1,443
National Loan Guarantee Scheme			2,900	2,900	2,900	2,900	2,900
UK Guarantees Scheme				83	885	1,000	1,100
Credit Guarantee Scheme	115,000	24,200					
Guarantees relating to Northern Rock	15,400	10,600	10,994	72			
Guarantees relating to Bradford & Bingley	5,200	3,200	2,861				
Whole-of-Government Accounts (£ billion)							
Provisions for Financial Guarantees	5.2	4.2	4.2	4.0	0.4	0.4	
Of which:							
Current		0.1				0.1	
Non-current	5.2	4.1	4.2	4.0	0.4	0.3	
Contingent Liabilities under IAS37	49.5	100.8	87.9	63.0	76.4	104.3	
Of which:							
Guarantees relating to Northern Rock	1.6	1.9	1.9				
Export guarantees and insurance policies	9.7	9.9	12.7	12.1	13.4	11.6	
Transport infrastructure projects	2.6	2.3	3.4	3.4	3.8	4.5	
Remote Contingent Liabilities Reported to Parliament	377.6	160.3	85.1	104.9	65.5	85.3	
Of which:							
Credit Guarantee Scheme	115.0	24.2					
Royal Bank of Scotland	110.0	54.7					
Bradford & Bingley and Northern Rock	20.6	14.3	11.9				
Transport infrastructure projects	29.1	31.3	34.4	37.0	6.8	6.7	
Loans guaranteed under EU Schemes	4.0	6.3	9.6	9.8	9.1	11.6	

Note: Data for WGA year end 2017 are not yet available; the 2015–2016 WGA was not published until 13 July 2017.

Source: Extracted from the Annual Reports and Accounts of HM Treasury 2011–2017 and of UK Whole of Government Accounts 2011–2016.

The provisions recognized as liabilities are relatively small and even the quantifiable contingent liabilities seem modest in relation to levels of recognized liabilities for government borrowings, future pension obligations, clinical negligence and nuclear decommissioning. This might lead to a view that guarantees are unimportant in the wider context of fiscal transparency and sustainability. However, the low visibility of these obligations gives cause for concern. The obligations could be increasing significantly as schemes are launched or extended and, to the extent that they are not considered to give rise to immediate expenditure, they do not increase deficits or liabilities, so helping governments to point to ‘success’ in controlling public expenditure. For example, the WGA (Treasury 2017c, p. 112) outlines the agreement to build HPC but does not refer explicitly to any ‘guarantee’, although it discloses that the fair value of expected payments is £26.8 billion. The Treasury accounts (Treasury 2017b, p. 89) refer to HPC in the note covering events after the reporting period; it discloses that an initial guarantee of £2 billion has been approved to support construction and that ‘... a guarantee of up to £13.1 billion may be considered thereafter’.

The underlying issue is that the structure of financial reporting is such that *risk* (through unrecognized commitments) may be increasing while *expenditure* is not, because these obligations are largely or entirely off-balance sheet. The initial impact of entering into these agreements involves little or no recognized expenditure, with most obligations disclosed as contingent liabilities. Any provision of a financial guarantee liability, measured at fair value, is likely to be matched with the recognition of an asset representing future revenue from the cost-covering guarantee fee. The NAO (2015) Report on the UK Guarantees Scheme concluded that the Treasury had not considered the overall value-for-money of projects financed by the Scheme but, instead, had used the narrower test of whether fees charged for providing guarantees represented a market price for these risks. The NAO criticized the reporting of guarantees because there was no disclosure of the assumed probability of default or the duration of exposure and it recommended that the Treasury should report annually to Parliament on the level of risks associated with the government’s portfolio of guarantees and on measures to mitigate risks. The Treasury’s 2016–17 accounts (Treasury 2017b) provide descriptions and durations, but no information on the probability of default.

Statistical accounting

Some differences of operational practice from financial reporting should be highlighted. A key step is delineating economic actors (known as ‘institutional units’) and then allocating these institutional units to sectors with reference to the principle of control (Eurostat 2013a, para. 1.36).⁶ Changes in regulation between successive versions of the ESA can result in particular units being reallocated from one sector to another. For example, the tightening of control criteria in ESA10 led the Office for National Statistics (ONS) to reclassify Network Rail to the public sector, whereas it had been allocated to the private sector under ESA95 (ONS 2013).

The national accounts do not generally include provisions as the debt supported by the guarantee is recorded already as a liability of the borrower and an asset of the lender under the quadruple-entry system. This difference is illustrated in the reconciliation between the net liabilities of the 31 March 2016 UK WGA balance sheet of £1,986 billion and public sector net debt based on the national accounts of £1,606 billion: WGA provisions of £306 billion are an important component of the net difference (Treasury 2017c, p. 143).

A guarantee is normally recognized as a government liability in national accounts only if it crystallizes to require government funding (Eurostat 2016, p. 396). However, accounting for three types of explicit government guarantee is required by ESA10:

- in the form of derivatives, which are to be treated in the same way as in non-government sectors;
- in the form of standardized guarantees which are ‘issued in large number, usually for a fairly small amount, [along] identical lines’ (Eurostat 2016, p. 391): examples relate to student loans and low-income housing loans, for which expected losses can be calculated on a portfolio basis and established as a liability at inception;
- in the form of one-off guarantees, usually for large amounts, which may be motivated to allow the borrower to secure a loan or to pay a lower interest rate.

This tightening of statistical regulations occurred as part of the process of updating them (European Council 2013, recital 7) and to help prevent innovative financial arrangements undermining the application of the Stability and Growth Pact and the associated EDP.

In the context of statistical accounting, one-off guarantees have the advantage to governments that they are not recognized as public expenditure, being regarded as contingent liabilities. The complexity and lack of transparency of guarantees is an advantage for those governments wishing to window dress their public finance numbers. Such financial arrangements take a long time to unravel and by then the policy objective may have been achieved by moving to the right or upwards on the Government Reporting Preferences Ladder.

Guarantees can be issued by governments to institutional units within the general government and to those units classified to the private sector. There are opportunities to arbitrage between locating guarantee obligations within the general government (on which ESA reports) and the public sector (which includes public corporations outside the general government). In some countries, guarantees are given to public corporations that are not viable, with no guarantee fee being charged. Another concern is that guarantee fees, whether in relation to public corporations or private entities, are treated as government revenue (thereby reducing deficits now), without there being recognition or disclosure of future liabilities under those guarantees (European Commission 2015b).

However, there are some safeguards. First, regulations in ESA10 and in the Manual on Government Deficit and Debt (Eurostat 2016) are designed to challenge (and record as capital transfers) loans to government units with implausible repayment possibilities and similarly to consider whether guarantees to private units are likely to be called upon. ESA10 innovated the category of ‘standardized guarantees’ where a liability can be estimated based on expected costs (Eurostat 2016, p. 399). This results in what is effectively a ‘provision for calls under standardized guarantees’ (Lequiller 2015, p. 35). Another enforcement device is the ‘three calls rule’, whereby full debt assumption by government is automatic if the government directly or indirectly services the guaranteed debt on three occasions (Eurostat 2016, p. 393).

Second, national statistical offices and Eurostat are located within the government information perimeter and have unrivalled access to source documents: they do not face the redactions confronted by parliaments and the public. National accounts are based on the economic substance of transactions, so it is possible for them to go behind the legal forms. Eurostat can reallocate, to the general government sector, institutional units that governments claim to be public corporations or private businesses.

Third, improved statistical accounting data on guarantees in EU Member States derive directly from the tightening of surveillance after the 2011 Eurozone crisis. One element of the so-called ‘six pack’ was Council Directive 2011/85/EU on ‘requirements for budgetary frameworks of the Member States’ (European Council 2011). Article 14(3) requires Member States to:

... publish relevant information on contingent liabilities with potentially large effects on public budgets, including government guarantees, and liabilities stemming from the operation of public corporations, including the extent thereof.

Accordingly, EU Member States face reporting requirements that go beyond ESA10, framed as supplements to the high-profile EDP questionnaire (Eurostat 2013b). This requirement led to the publication of a report (European Commission 2015a) to the European Parliament and the European Council after Eurostat's first publication of these data.

There are marked variations in 2015 across the 28 Member States on the three categories of contingent liabilities (Eurostat 2017). Government guarantees/GDP range from 0.0% (Slovakia) to 28.3% (Finland), liabilities related to off-balance sheet PPPs range from 0.0% (several countries) to 3.4% (Portugal) and liabilities of government-controlled entities classified outside the general government range from 1.6% (Slovakia) to 110.4% (Germany, where these are mostly attributable to public sector banks). The 2015 government guarantees/GDP data show a wide variation within the above range, with several countries' data footnoted as incomplete and requiring extended coverage in future reporting years.

As announced in an annual press release (Eurostat 2017), Eurostat's database for the 28 EU Member States provides calendar year data for 2010–15,⁷ expressed as a percentage of GDP. These are derived from returns prepared by national statistical offices and published on their own websites. The UK data in Table 3 are striking in two ways. First, the total stock of guarantees falls sharply from 27.52% in 2010 to 10.24% in 2012. This represents the unwinding of guarantees to the financial sector arising from the 2008 crisis. Second, standardized guarantees in the UK do not appear in the data until 2013 and remain at a negligible level (0.06% in 2015). Examples given by Eurostat of standardized guarantees are mortgage loan guarantees and student loan guarantees. UK guarantees relate to the Help-to-Buy scheme, whereas student loans are issued from within the general government (Student Loans Company) and export credit guarantees are outside the general government.⁸ The UK fiscal risks derive from the pipelines of future projects that develop when guarantees become established as a means of funding assets such as infrastructure, without counting in public expenditure aggregates, budget deficits and public debt.

Eurostat (2017, Annex 1) explains that 'While the provisions for standardized guarantees are considered an actual liability, the total stock of assets covered by standardized guarantee is regarded as a contingent liability'. For this reason, contingent liabilities as percentages of GDP should not be added to debt/GDP ratios; otherwise, there would be some double counting.

Whatever the imperfections of country data, contingent liabilities have been highlighted as a threat to fiscal transparency and sustainability. For those guarantees that fall within Eurostat's remit and data, disclosure of the categories and financial volumes of guarantees can support transparency through analysis of the movement of transactions on the Government Reporting

Table 3. Statistical reporting of UK Government guarantees.

	2010	2011	2012	2013	2014	2015
Eurostat reporting (% of GDP)						
One-off guarantees	27.52	15.32	10.24	9.32	8.80	8.64
of which:						
public corporations	7.71	3.94	4.00	3.36	3.35	3.51
financial corporations	19.42	5.29	4.64	3.98	3.86	4.01
Standardized guarantees	0.00	0.00	0.00	0.01	0.03	0.06
Total Stock of Guarantees	27.52	15.32	10.24	9.33	8.84	8.69

Note: All UK guarantees are issued by central government, a category that includes the devolved administrations in Scotland, Wales and Northern Ireland. ONS has found no evidence of any significant guarantees issued by local government.

Source: Eurostat database (accessed 8 July 2017).

Preferences Ladder. However, Eurostat (2017, Annex 2) lists four exclusions from these published data on contingent liabilities:

- (1) ‘Government guarantees issued within the guarantee mechanism under the Framework Agreement of the European Financial Stability Facility [EFSF]’: Eurostat decided that the debt of the EFSF should be attributed proportionately to Member States’ national debt, effectively treating the temporary EFSF as an empty shell.⁹
- (2) ‘Derivative-type guarantees meeting the ESA2010 definition of a financial derivative’: these are already recognized in national accounts as government liabilities.
- (3) ‘Deposit insurance guarantees and comparable schemes’: since these schemes cover all eligible bank deposits, they represent very large amounts compared with other government guarantees, and therefore would potentially dwarf other government guarantees, thereby reducing the usefulness of the aggregate figures. More controversially, it has been argued that there is a low probability of significant calls across many financial institutions at the same time.
- (4) ‘Government guarantees issued on events [for] which occurrence is very difficult to cover via commercial insurance (earthquakes, large scale flooding, etc.)’: these are characterized by low probability and potentially huge uncertain costs. Such exclusions are analogous to the IAS37 exclusion of remote contingencies on the grounds of being misleading.

Items (1) and (2) are included in the national accounts of each country. Items (3) and (4) represent examples of the implicit guarantees that governments give to their economies and are uncertain and potentially huge.

Budgetary accounting

Whether and how guarantees show up in budgetary documents depend, *inter alia*, on the adopted measurement basis (nothing will show under cash accounting unless payments are expected during the budget period), the coverage of budgetary documents (guarantees may be granted by off-budget institutions or funds) and the degree of aggregation of the budget documents (values may fall below reporting thresholds). Notwithstanding national prerogatives to control budgetary documentation, these will come under pressure from harmonized government financial reporting and from the use of statistical accounting for external surveillance.

The budgetary amounts provided in the UK Central Government Supply Estimates (Treasury 2017d) align with the subsequent financial reporting basis (Treasury 2017e), a feature that was designed in the Treasury (1995) proposals for Resource Accounting and Budgeting. Financial guarantee contracts impact on budgets in several ways. A cost is recognized when the guarantee is provided, based on its measurement in the balance sheet, and budget income is recognized for guarantee fees. Amortization or revaluation of the liability is recognized as a budgetary cost or income on an annual basis. Payments resulting from the guarantee are counted against spending departments’ capital expenditure limits (Treasury 2017e, paras 8.29–8.31). The UK budgetary accounting system thus, typically, aligns budgetary accounting with financial reporting treatment.

Fiscal sustainability projections

Long-term fiscal projections are on a cash basis; assumptions are required of the amounts for which, and the years when, guarantees will be called. This is more judgemental than allowing for the construction of physical infrastructures or the modelling of ageing costs. Fiscal gaps

are unaffected if the present value of guarantee fees offsets the present value of calls and administrative costs. However, the potential for large future calls, though believed to be improbable, is a potential threat to sustainability. With regard to guarantees, the incremental information provided by such projections relates to the build-up of future potential calls on guarantees as the stock of guarantees increases.

Summary

Two conclusions emerge. First, guarantees bring genuine uncertainty of outcome: multiple accounting standards and porous accounting boundaries can generate opaqueness rather than transparency, notwithstanding that having multiple perspectives could promote greater understanding. Second, a tightening of standards can encourage the development of policy instruments designed to exclude obligations from headline numbers.

5. Interpretations

This paper has established that obligations arising from guarantees raise complex technical issues and that accounting for them is contestable. Our examples of UK government guarantee arrangements confirm that existing provisions and contingent liabilities are not numerically significant in the context of total government liabilities. However, there is the potential for guarantee liabilities to grow in importance because of weak public finances and low economic growth. Governments seek to find ways to fund infrastructure programmes and to support financial institutions within the context of austerity-driven policies.

The dichotomy of treatment between recognition by provisioning for losses and disclosure, without recognition, of contingent liabilities is a feature of accounting that is consistent between public and private sectors. However, the nature of government and the scope and scale of its guarantees provide features that go beyond those in a commercial setting.

First, the demands of fiscal transparency and the absence of conventional limited liability of governments require more extensive reporting than in the corporate sector. We see evidence of this under the financial reporting mode, where the UK government has extended the disclosures in the WGA beyond IAS37/IPSAS19 to include remote contingent liabilities. These disclosures promote greater fiscal transparency, but leave open the issue of how far should 'remoteness' be taken before potential obligations are so unlikely that their inclusion in the accounts becomes misleading.

Second, the ability to measure rather than having to estimate (Barker and McGeachin 2013) is a particularly complex one in a public sector setting. It is unlikely that there will be an active market for government guarantees to identify a market price to determine fair value. Indeed, it may be government policy to retain such obligations within the public sector, as the cost of risk transfer into commercial markets may be excessive.

Third, the distinction between one-off and standardized guarantees, used in statistical accounting, is helpful. It may be possible to determine the expected outcome of a portfolio of standardized guarantees by drawing upon past occurrences of similar arrangements, while such data will be unavailable for one-off guarantees. In either case, the disclosure of a range of outcomes and their expected likelihood will be useful to make transparent the decision on whether or not to recognize a liability and to show the basis of computing expected value.

In the context of the Miller and Power framework, the adoption of accounting mechanisms represents an intensified territorializing of the government sector. For example, economic events not recognized in traditional cash-based accounting systems are captured routinely within accrual-based financial reporting systems.

The complexities that underlie the decisions on recognition and/or disclosure of guarantees support the mediating role of accounting, which links actors together to provide a basis that ‘permits neutrality to be claimed for accounting expertise’ (Miller and Power 2013, p. 562). In the calculations of accounting, the mediating role cannot remove the subjectivity arising from incomplete information, but it may support competing or collaborating actors in making the case for a particular course of action: for example, that there will be no cost to the guarantee with claims covered by fees charged for the arrangement. Similarly, the adjudicating role of accounting will be significant if the use of guarantees can provide governments with flexibility to avoid or delay the reporting of deficits and increases in public debt.

The application of statistical accounting rules indicates how the adjudicating and subjectivizing roles of accounting apply to EU Member States. They are subject to formal limits on deficits and debt ratios, above which the EDP process may be applied (adjudication) but are free to choose methods of financing within the application of those limits (subjectivization). The subjectivizing role of accounting is not neutral; it may promote or restrain particular methods of financing. For example, the general absence of provisions in statistical accounting may lead governments to issue guarantees in preference to public sector debt.

Guarantees pose technical difficulties for both financial reporting and statistical accounting standard setters and practitioners. The context is one in which there are explicit and coded messages from policy-makers that accounting should not disrupt their preferred policies. In terms of the Government Reporting Preferences Ladder (Table 1), standard setters wish to have recognition when there is a probable economic outflow (Column 1) and disclosure where there is a possible economic outflow (Column 2). Data acquisition is a significant obstacle, especially when guarantees and other contingent liabilities are incurred by many government entities or when governments do not wish to reveal the potential financial costs of their policies. For example, in relation to the UK Autumn Statement of 2016, the OBR (2016, p. 3) reported:

... at each forecast we also ask the Treasury to detail any newly created contingent liabilities that might pose a risk to our forecast. On this occasion, we asked specifically whether any contingent liabilities had been created in respect of assurances provided to Nissan and the Treasury declined to say.

This relates to assurances provided by the UK Government to Nissan, the Japanese car manufacturer, in order to persuade it to reverse plans to cancel future investment in the aftermath of the June 2016 referendum that will lead to the withdrawal of the UK from the EU.

At the European level, Eurostat has taken advantage of the circumstances created by the Eurozone crisis to secure a mandatory system of country reporting (Eurostat 2013b) that would otherwise have been unacceptable. There are conflicting pressures: the EC wishes to enforce budgetary discipline on Member States while creating its own off-balance sheet vehicle in the form of the EFSI.

Miller and Power’s (2013) interpretation of how accounting leads to the economization of organizational life, through territorializing, mediating, adjudicating and subjectivizing, has proved useful for interpreting the linkages of accounting for guarantees to the wider issues of fiscal transparency and surveillance.

The territorializing influences of government accounting within the EU enable its Member States to be constituted as calculable spaces which, in turn, supports the other three roles of accounting in the Miller and Power framework. Territorializing activities reaffirms the importance of consolidation practices to determine what is constituted as ‘government’ for accounting purposes. Financial reporting in the UK has culminated in the WGA, which provides a wider perspective and makes boundary issues more difficult to manipulate as government liabilities,

such as guarantees, are subject to more than one mode of accounting. Statistical accounting focuses on the general government, leaving vulnerabilities beyond that boundary, as illustrated by the exclusion of guarantees provided by entities outside the general government sector from data reported by Eurostat. This manipulation of guarantees inside or outside of the general government boundary makes it difficult to draw conclusions from the comparison of international data.

The mediating role of accounting enables actors and activities to be linked together and comparability asserted. This paper has confirmed that mediating interactions have developed between financial reporting and statistical accounting through the spread of accrual accounting. These interactions are promoting the globalization of standard setting and possible further isolation of budgeting from these two modes of government accounting. The IMF (2014) has promoted fiscal transparency and fiscal sustainability reporting. The IPSASB (2014b) is seeking to remove unnecessary differences between financial reporting and statistical accounting. Eurostat (2013b, 2016) has extended the reporting by EU Member States through the disclosure requirements of one-off/standardized guarantees, the 'three calls' rule and mandatory contingent liability reporting.

The adjudicating role of accounting implies that elected governments can be judged and punished on the basis of accounting numbers. The examination of financial reporting showed how complex is the provisioning for guarantees, while the discussion on statistical accounting highlighted weaknesses deriving from the general absence of provisions in national accounts. Budgeting processes are more diverse internationally. Cash-based budgets are unlikely to disclose the future impact of guarantees in view of the long periods required for most guarantees to crystallize into required payments; accrual-based budgets are limited by their relatively short-term predictions of future costs. Long-term fiscal sustainability projections are useful in considering trends but are reliant upon stylized assumptions and dominated by demographic trends, such as ageing populations.

Adjudicating is shifting more to an international level, with intensified fiscal surveillance originating from IMF concerns about hidden fiscal risks and from the creation of the EU Stability and Growth Pact. We see this explicitly in the application of the EDP regime based on ceilings on deficit and debt. There have been attempts to improve disclosure in both financial reporting (through IPSAS standards on provisions and contingencies) and statistical accounting (through Eurostat requirements for country-level reporting of contingent liabilities). Despite this, the reporting of liabilities arising from guarantees is neither consistent nor adequate for the adjudicating role. The limitations arise from the inherent uncertainty in the financial outcomes of guarantees (including the possibility of a contagion effect resulting in the crystallization of obligations) and the drafting of guarantee contracts to push legal obligations outside of (whatever is reported as) government.

The subjectivizing role of accounting aligns with the centralization of political authority at the Member State or EU level. However, entities are capable of some degree of resistance within the constraints imposed by higher political authorities or by capital markets. The extent to which rules on public finances are generated by bodies perceived as distant, such as the EU, has taken decisions away from more conventional locations, such as national parliaments. The timescales of guarantee commitments are likely to exceed the horizons of political decision-makers. In such contexts, resistance may take the form of subverting reporting systems, by formal compliance providing nominal transparency, combined with ever-more-complicated contractual terms that limit effective transparency.

The Government Reporting Preferences Ladder illustrates how resistance to subjectivization can take the form of moving from recognition of liabilities, through disclosure to policy structuring so that government obligations are deemed not to exist. Whether this is preventable depends

partly upon the effectiveness of various forms of scrutiny over the development and reporting of guarantee arrangements. In the UK context, this includes the influence of the NAO on financial reporting, the OBR on budgets and fiscal sustainability projections, and the IMF in its fiscal transparency evaluations. The IMF's (2016) Fiscal Transparency Evaluation of the UK highlighted fiscal risks, including guarantees, as a severe weakness. Such organizations may help to reduce the potential for diminished fiscal transparency arising from the complexity of arrangements and the use of commercial-in-confidence clauses to take matters out of the public domain.

There are limitations to the research methods adopted for this paper. We examine developments which have not yet matured. When public domain evidence is limited during early investigation of an area of accounting, researchers must seek to go 'below the radar' in order to establish what is happening and how decision-makers view developments. There may be a gulf between what is on the public record and concerns expressed off-record. Examples include fears about hidden fiscal risks and poor value-for-money resulting from contractual arrangements shaped by whether or not transactions will be recognized or disclosed or not reported. Few of our interviewees appeared to believe that guarantee arrangements are determined by value-for-money considerations, although that message for public consumption becomes increasingly polished.

6. Conclusion

Our analysis sees financial reporting and statistical accounting as separate modes of government accounting drawn together under the influence of international agencies. In contrast, budgeting practices are still the preserve of each nation state, while long-term fiscal sustainability projections are in their infancy and have limited influence in determining the use and nature of guarantee arrangements. The Miller and Power framework can be used to analyse future changes in these relationships; within the EU, the subjectivizing role of accounting might result in pressure on Member States to adopt more consistent budgeting practices and bring closer the linkages with statistical accounting. Political consensus on the need for more infrastructure spending without damaging reported measures of the public finances suggests that guarantee arrangements will become increasingly attractive to governments. The extent to which public audit offices and fiscal councils are enabled and willing to challenge government practices is an important part of such a research agenda.

There are opportunities for accounting academics to undertake research on the growth and treatment of guarantees and to contribute to knowledge exchange. Particular areas are (a) studying the interactions of financial reporting and statistical accounting standard setters on the international stage, and (b) undertaking comparative case studies of how individual countries account for guarantees, a task that requires deep institutional knowledge as well as understanding of complex standards. Academics can maintain independence from hierarchical policy systems that practitioners, subjected to political authority or commercial pressures, cannot always maintain. National statistical offices may come under pressure from finance ministries, while Eurostat is in a weak position in relation to the EC's own off-balance sheet activity. Achievement of effective fiscal transparency will in part depend on the robustness and timeliness of the evidence that academics can provide.

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Notes

1. HPC will be built and operated by a consortium led by French government-owned EDF and the state-owned China General Nuclear Corporation. An initial guarantee of £2 billion has been provided by the UK Government to support bond issues to finance construction. The consortium will receive a guaranteed price of £92.50 (in 2012 prices and adjusted by changes in the Consumer Prices Index) for each megawatt-hour of electricity generated from HPC sold into the market for the first 35 years of operation. This is more than twice the average cost of electricity on wholesale markets between 2010 and 2017. The proposal is structured so that excess generating costs fall upon the electricity generators and then upon consumers (European Commission 2014) so that it will not be reported as a liability or contingent liability of the UK Government (National Audit Office (NAO) 2017).
2. Implicit guarantees are unbounded, arising from government's role as provider of last resort after, for example, earthquakes, terrorism incidents and failure of the banking system.
3. For example, the European Commission (EC) has launched the European Fund for Strategic Investments (EFSI), an infrastructure financing vehicle that is an off-shoot of the European Investment Bank (EIB), which itself is not consolidated in the EC accounts. The EFSI is supported by a €16 billion guarantee from the EU budget (EIB 2015) and has been described as having the potential to create a 'shadow budget' operating in parallel with EU and national budgets (Sinn 2015).
4. For example, if a government has treated a loan guarantee as a contingent liability but then switches to it being recognized as a liability, this does not necessarily imply that the original borrower will treat the guarantee as an asset or will derecognize the loan liability.
5. For example, the payment of a capital grant by government to a private sector corporation would be recorded twice in the accounts of the government and twice in the accounts of the corporation.
6. 'For the purposes of ESA10, the institutional units are grouped together into five mutually exclusive domestic institutional sectors: (a) non-financial corporations; (b) financial corporations; (c) general government; (d) households; (e) non-profit institutions serving households. The five sectors together make up the total domestic economy' (Eurostat 2013a, para. 1.57).
7. Although the ONS publishes these data for UK financial years, they are treated by Eurostat as equivalent to calendar years.
8. The importance of boundary definition is highlighted by UKEF being classified as a public financial corporation. This takes it outside general government and therefore outside Table 3's standardized guarantees data. Provisions for guarantees, but not contingent liabilities, are included in 'liabilities of government-controlled entities classified outside general government' (Eurostat 2017).
9. As from 2012, the temporary EFSF has been replaced by the European Stability Mechanism (ESM), a permanent EU agency based in Luxembourg which is not consolidated in the accounts of the EC and is classified to European Union Institutions (i.e. not attributed to Member States, as done for the EFSF). The liabilities of the ESM are off the balance sheet of both Member States and the EC.

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