BUDGET ISSUES

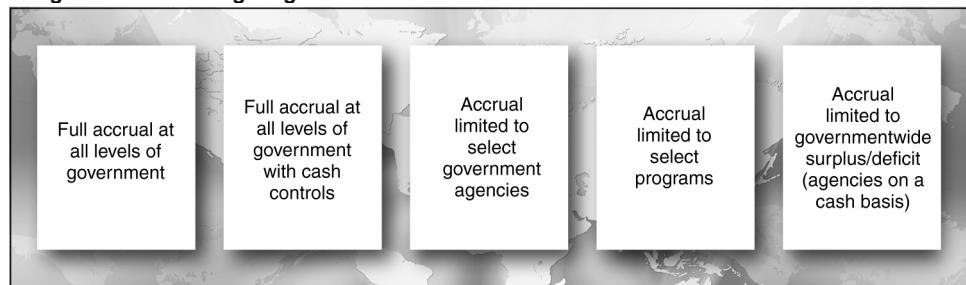## Accrual Budgeting Useful in Certain Areas but Does Not Provide Sufficient Information for Reporting on Our Nation's Longer-Term Fiscal Challenge

Why GAO Did This Study

The federal government's financial condition and fiscal outlook have deteriorated dramatically since 2000. The federal budget has gone from surplus to deficit and the nation's major reported long-term fiscal exposures—a wide range of programs, responsibilities, and activities that either explicitly or implicitly commit the government to future spending—have more than doubled. Current budget processes and measurements do not fully recognize these fiscal exposures until payments are made. Increased information and better incentives to address the long-term consequences of today's policy decisions can help put our nation on a more sound fiscal footing.

Given its interest in accurate and timely information on the U.S. fiscal condition, the Senate Committee on the Budget asked us to update our study of other nations' experiences with accrual budgeting and look at other ways countries have increased attention to their long-term fiscal challenges.

What GAO Recommends

The Congress should require increased reporting on the long-term budgetary implications of major tax and spending programs. In addition, Congress should explore using accrual budgeting for certain programs to ensure the information affects incentives and budget decision making. Congress should also require periodic reports on fiscal sustainability for the government as a whole.

To view the full product, including the scope and methodology, click on GAO-08-206. For more information, contact Susan J. Irving at (202) 512-9142 or irvings@gao.gov

What GAO Found

In 2000, GAO reviewed the use of accrual budgeting—or the recording of budgetary costs based on financial accounting concepts—in Australia, Canada, Iceland, the Netherlands, New Zealand, and the United Kingdom. These countries had adopted accrual budgeting more to increase transparency and improve government performance than to increase awareness of long-term fiscal challenges. Accrual budgeting continues to be used in all six countries; Canada and the Netherlands, which use accrual information selectively, considered expanding the use of accruals but thus far have made only limited changes. Since 2000, other countries have considered using accrual budgeting. For example, Denmark and Switzerland began using accrual budgeting on a selective basis. Norway and Sweden, however, rejected accrual budgeting primarily because they believed cash budgeting enables better control over resources.

Countries have taken different approaches in the design of their accrual budgets. The figure below shows the range of approaches used. Regardless of the approach taken, cash information remains important in all the countries for evaluating the government's finances. Other countries' experiences show that accrual budgeting can be useful for recognizing the full costs of certain programs, such as public employee pensions and retiree health, insurance, veterans benefits, and environmental liabilities, that will require future cash resources. However, these other countries do not use accrual budgeting to recognize their long-term fiscal challenges that are primarily driven by public health care and pension programs. Instead, many countries in GAO's study have begun preparing fiscal sustainability reports to help assess these programs in the context of overall sustainability of government finances. European Union members also annually report on longer-term fiscal sustainability.

Range of Accrual Budgeting Use

Source: GAO (PhotoDisc, image).

Although no change in measurement or reporting can replace substantive action to meet our longer-term fiscal challenge, GAO believes that better and more complete information on both the full-cost implications of individual decisions and on fiscal sustainability of the government's finances can help.

United States Government Accountability Office