

# Impact Transparency in Public Sector Accounting

Input paper to the Impact Taskforce (ITF) produced by Social Value International (SVI)

"I saw an iridescent biosphere teeming with life. I didn't see the economy. But since our human-made systems treat everything, including the very life-support systems of our planet, as the wholly owned subsidiary of the global economy, it's obvious from the vantage point of space that we're living a lie."

Ron Garan, astronaut



Written by Jeremy Nicholls and Ben Carpenter, September 2023. Acknowledgements and gratitude for the help provided by the wider Social Value membership and all partners referenced in this paper.

## Introduction

The ITF report 'Financing a better world requires impact transparency integrity and harmonisation' included a number of calls for action. Under the medium-term calls for government one of the actions was;

*'Adopt the necessary public sector accounting practices so that government expenditure meets demands for transparency, harmonisation and integrity of impact, and governments gain a better understanding of impacts and dependencies related to the national economy.'*

At the same time, the [G7 2023 Finance Ministers' communiqué](#) included the recommendation that "Policymakers need to follow multidimensional indicators for measuring welfare and explore operational tools to reflect such indicators in policy-making". These issues, especially in the context of wellbeing, are also referenced in OECD's May 2023 Report for the G7<sup>1</sup>.

**This document is the next stage in exploring both the call for action in the ITF report and the scope for integrating developments in national accounting and wellbeing accounting in the public sectors.**

The public sector represents over thirty percent of the world economy and is a major investor in both public infrastructure, services and, through bond issues, in the private sector. In 2021 sovereign bonds accounted for close to 40% (USD 39 trillion) of the global bond market. Governments are directly interested in impact and wellbeing as an investor and in ensuring systemic risks are being considered but also indirectly as a supplier of goods and services to address negative impacts arising from our economic system.

Impacts underpin sustainable development and wellbeing. These terms are interconnected. Impacts as changes to people and planet are increasingly recognised as changes to wellbeing and provide the basis for decisions made to contribute to sustainable development.

Government's interest in wellbeing is fundamental. As the International Public Sector Accounting Standards Board (IPSASB) states in its [Conceptual Framework](#);

*The primary function of governments and other public sector entities is to provide services that enhance or maintain the wellbeing of citizens and other eligible residents.*

Government interest is not limited to public investment and procurement. It will also play a critical role in the shift from the assumption of abundant, limitless resources to the reality that many resources are finite and that we are breaching social and environmental limits. Governments set the rules within which business and environment operates.

The role of the private sector is to operate within these rules to provide the goods and services that people both need and want, goods and services that maintain or enhance their wellbeing. All businesses keep accounts of their financial transactions, as do public sector organisations. Financial accounting goes on every day in all organisations, accounting for the transactions as the basis for providing information to managers, investors, governments and other stakeholders.

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<sup>1</sup> OECD (2023), Economic Policy Making to Pursue Economic Welfare: *OECD Report for the G7 Finance Ministers and Central Bank Governors*, [http://www.g7.utoronto.ca/finance/2023-G7\\_Beyond\\_GDP\\_Economic\\_policy\\_making\\_to\\_pursue\\_economic\\_welfare\\_2023.pdf](http://www.g7.utoronto.ca/finance/2023-G7_Beyond_GDP_Economic_policy_making_to_pursue_economic_welfare_2023.pdf)

Impact measurement and management does not yet have an equivalent accounting system, a system of wellbeing accounting.

### **Top-down and bottom-up solutions:**

For many years there have been calls for public reporting on national performance to move beyond Gross Domestic Product (GDP) and move away from the use of a single measure of economic performance as a proxy for developments in wellbeing and sustainability. In 2008, the French government established a Commission on the Measurement of Economic Performance and Social Progress to address the disconnection between GDP and economic measures and wellbeing.

*Moreover, it has long been clear that GDP is an inadequate metric to gauge wellbeing over time particularly in its economic, environmental, and social dimensions, some aspects of which are often referred to as sustainability<sup>2</sup>.*

Two distinct limitations in using GDP as an overarching measure are that it excludes a range of aspects that contribute to wellbeing of people and society, including unpaid household work and enjoyment of nature, and that it does not deduct the cost of capital that underpins production especially natural capital. Notwithstanding a wide range of efforts to establish alternative measures of GDP, it remains a widely quoted indicator – one reason being the robust accounting system that underpins its design and calculation. GDP is not a result of surveying a range of businesses and households about economic activity but rather an indicator that sits atop a vast accounting system that integrates data from a multitude of data sources including corporate financial accounts.

From a bottom-up perspective, the public sector has been measuring and managing impact through cost-benefit analysis for many years and social economy organisations have been working with new frameworks to understand, improve and report on the value of their work. More recently the private sector, particularly through impact investment, has been developing its approaches to impact measurement and management.

This short report covers key developments in the following four areas:

- Multi-national approaches to wellbeing accounting
- National and regional approaches to wellbeing accounting
- Organisational approaches to wellbeing accounting
- Public sector approaches to service performance reporting

Following these sections this report has a section titled Opportunities for convergence that sets out the scope for convergence and integration and for more transparency and integrity, especially if legislation, the rules set by government, is to change to make impact fundamental to competitiveness.

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<sup>2</sup> French Government (2008), Report by the Commission on the Measurement of Economic Performance and Social Progress, <https://ec.europa.eu/eurostat/documents/8131721/8131772/Stiglitz-Sen-Fitoussi-Commission-report.pdf>

## Multi-national approaches to wellbeing accounting

The [OECD's wellbeing framework](#) is a well-established international standard for measuring people's wellbeing and is central to the [Beyond GDP Agenda](#). In this context OECD's interest has been in developing national accounts of wellbeing, however as part of a shift from measurement to policy, OECD launched the Centre on Wellbeing, Inclusion, Sustainability and Equal Opportunity (WISE) in 2020. The Centre is collaborating with businesses, investors, standard-setters and policy makers who are managing and measuring business impacts on people's wellbeing and sustainability. WISE is generating new data and solutions to improve people's wellbeing and reduce inequalities, and better understand the impact of policies and business actions on people's lives today and in the future.

WISE has recently released reports on '[Valuing business impact in the areas of wage inequality and employee wellbeing](#)' building on earlier work on 'Measuring the non-financial performance of firms through the lens of the OECD Wellbeing Framework'.

In parallel with the efforts to develop alternative measures of GDP, a range of work has been progressing over the past 30 years to establish ways of using accounting approaches to integrate data on the elements of wellbeing and sustainability that are not within the scope of the System of National Accounts (SNA) that defines GDP. These additional accounts encompass topics such as health care, education and training, unpaid household service work, household distributional accounts for income, consumption and wealth, labour accounts and accounts for human capital. Perhaps most progressed in terms of standardisation is the [System of Environmental-Economic Accounting \(SEEA\)](#) which has established international statistical standards to account for the relationship between the environment and the economy. The SEEA now encompasses accounts for water, energy, air emissions, solid waste, environmental taxes and subsidies, environmental protection expenditure, the environmental goods and services sector, natural resources and, most recently, in the SEEA Ecosystem Accounting, a set of accounts has been developed to record systematically data on ecosystems including their extent (size), condition and ecosystem services. SEEA based data are under development in over 90 countries, the focus of legal reporting in the EU and SEEA based concepts and classifications are being incorporated in private sector natural capital related initiatives such as TNFD.

UNDP's work through the Integrated National Financial Framework is working with Ministries of Finance on budgeting for the SDGs and has developed a [handbook on SDG budgeting](#). Governments implement their policies for sustainable development and public spending decisions based on annual budgets. As the SDGs cut across government functions and departments, setting budgets that reflect both national priorities and the SDG targets provides a holistic approach to sustainability and wellbeing.

## National and regional approaches to wellbeing accounting

As governments have recognised the limitations in GDP, there have also been an increasing number of initiatives and approaches to develop mechanisms that integrate wellbeing considerations in the design and implementation of policies. The aforementioned OECD Report for the G7 Finance Ministers and Central Bank Governors includes a detailed summary of legislative and other embedding mechanisms.

The Welsh Government requires public bodies to consider the wellbeing of future generations and includes seven wellbeing goals that public bodies must work towards. This has meant that

Audit Wales, the statutory external auditor of most of the Welsh public sector, has had to develop approaches to assess performance against this requirement. Audit Wales and the Future Generations Commissioner produced their [first reports on progress in 2020](#).

The New Zealand Government has developed a national [wellbeing budget](#). The wellbeing objectives take an intergenerational view and focus on ensuring that wellbeing is the basis of investment decisions. XRB, the body responsible for developing and issuing reporting standards on accounting, audit and assurance for entities across all sectors, has started work on a pilot project, called Ngā Pou o te kawa Ora, on intergenerational impact designed to reflect the interconnectedness of the elements with Maori reporting entities. This will be informed by the Government's [He Ara Waiora](#) framework that helps the Treasury to understand waiora, often translated as a [Māori](#) perspective on wellbeing.

The Australian government has launched a new national wellbeing framework "[Measuring What Matters](#)" to inform government decision making with inclusion, equity, and fairness as cross-cutting dimensions.

The Brazilian government has established a [National Strategy for an Impact Economy](#) permitting the public administration to mobilize private sector and civil society. The objective is 'to foster a favourable environment for the development of Impact Investments and Businesses in Brazil, in order to promote economic development, solve complex socio-environmental problems and offer better public services to the population.'

The Canadian government has established "[Measuring What Matters: Toward a Quality of Life Strategy for Canada](#)". The intention is to take a Quality of Life Approach to Government Decision-Making.

[The Social Progress Imperative](#), with an established annual global index covering 170 countries since 1990, provides a framework for making decisions to improve people's lives. The framework has been used a national, sector and community level, for example [regional and district level in India](#) and [tourism in Costa Rica](#) and a community business in Nicaragua, incorporating locally-relevant data into each index.

There is also growing interest from local authorities in pursuing a more definite wellbeing agenda, for example Stoke City Council in the UK are now developing a new approach to economic development which prioritises population wellbeing alongside commercial profit and growth.

## Organisational approaches to wellbeing accounting

What is new is not so much government's recognition of the importance of wellbeing as the realisation that this means being able to account for wellbeing, and a growing body of practise that shows how this can be done.

Over the last fifteen years, [Social Value International](#) has been developing and supporting an international community of people, across over sixty countries, developing [standards of practise](#) for accounting for wellbeing. [The Capitals Coalition](#), whilst not specifically focusing on wellbeing, has developed protocols for assessment of impacts and dependencies on natural, social and human capitals. The UK Government's Public Services ([Social Value Act](#)), introduced in 2012 requires a more formal consideration of social value in commissioning services. More recently British Standard [8950](#) Understanding and Enhancing Social Value defines social value as wellbeing, PAS [808](#) Purpose-driven Organisations refers to wellbeing as their overarching

purpose, and the UNDP [SDG Impact Standards](#) refer to wellbeing as the basic unit of account. ISO [37005](#), Developing Indicators for effective governance, is currently being developed and aligns sustainable development, impact and wellbeing.

Making decisions to increase wellbeing means being able to compare the value of different options, options which generally result in both positive and negative impacts. Managing wellbeing requires transparency on approaches to value, which is the objectives of the work of [the Value Commission](#). The cumulative effect of all those impact-informed decisions would be sustainable development.

## Public sector approaches to service performance appraisal and reporting

Cost benefit analysis (CBA) has been used to guide public expenditure for many years. The UK Government has recently updated its guidance on CBA, the Green Book, and includes specific [guidance](#) on where when and how wellbeing concepts measurement and estimation may contribute to the appraisal of social, or public value and on wellbeing valuation. In the Netherlands, the government has been [monitoring wellbeing](#) in the context of the SDGs. Whilst not specifically wellbeing, United States Government through the White House Office of Management and Budget has released [new guidance](#) (August 2023) for including ecosystem services in benefit-cost analysis.

The International Public Sector Accounting Standard Boards (IPSASB) is the body that sets international accrual-based accounting standards, for use by governments and other public sector entities around the world. IPSASB has recently provided non-authoritative guidance in [Recommended Practice Guideline \(RPG\) 1](#), Reporting on the Long-Term Sustainability of an Entity's Finances, and [RPG 3](#), Reporting Service Performance Information for reporting sustainability program information. IPSASB RPGs 1 and 3 are available on-line and provide reporting guidance that could be applied now to communicate information on a government's long-term fiscal sustainability and service performance information. Such information will help assess progress related to sustainable development initiatives and could help to measure changes in measures of wellbeing, arising from public services, and linking program objectives to the wider objective of wellbeing.

IPSASB is now starting work on a [Climate-related disclosures project](#) for public sector entities. This followed a [World Bank report](#) in 2022 on 'Sovereign Climate and Nature Reporting: Proposal for a Risks and Opportunities Disclosure Framework' which had called on the IPSASB to lead a consultative process to gain support for developing global public sector-specific sustainability reporting guidance. Following the very strong support received to that consultation, IPSASB has decided to start work with climate-related disclosures.

Given that IPSASB's Conceptual Framework relates to information in General Purposes Financial Reports and includes key concepts which could be applied to related concepts of wellbeing and value-for-money, there is a significant opportunity for developing sustainability reporting guidance off the Framework that aligns various measures of wellbeing. Primary users of IPSASB Standards need information on the extent to which services enhance or maintain wellbeing. In this context, RPGs 1 and 3 can be applied now in the interim, and in the future could be enhanced to address additional concepts that link directly to sustainable development, or measures of wellbeing, arising from public services, and linking program objectives to the wider objective of wellbeing.

This is already happening in some jurisdictions. In Wales a [code of practice](#) in relation to the performance and improvement of social services already makes reference to wellbeing. The code states;

*Partner bodies should also take account of and use this code of practice to understand how their work facilitates improvement in social care, specifically when working collaboratively with local authorities or contributing to the wellbeing outcomes of people who need care and support or carers who need support.*

And sets out the aims including to;

*ensure that practitioners are fully aware of their role in collecting accurate data and evidence so that performance and improvement can be properly measured and the impact on the wellbeing outcomes of people in need of care and support and carers who need support can be captured.*

And ties this all back to accountability;

*The Welsh Government will use the evidence gathered through this code of practice to understand the impact local authorities are having at a national, regional and local level, on the wellbeing outcomes of people who need care and support and carers who need support.*

OECD also conducts a [survey on satisfaction with public services](#) which provides a measure of service performance.

## Opportunities for convergence

There is an opportunity to develop an integrated reporting and accounting system that addresses both wellbeing and finance to meet national policy initiatives. This could build from and be integrated with double entry bookkeeping. Double entry bookkeeping is the accounting system that is often taken for granted and then put to different uses, with professional bodies supporting that use, for example public sector accounting, management accounting, financial reporting. Currently there is no equivalent for wellbeing accounting.

### **Integrating national and organisational approaches**

The current update of the System of National Accounts due for completion in early 2025, will include three new chapters on the measurement of wellbeing and sustainability and provide a focal point for the further development and integration of accounting-based approaches to the organisation of data across the various themes listed above. A single indicator to replace GDP is not envisaged but through the progressive linking of a wider range of data, there is a clear potential to establish the types of rich and comparable data sets across aspects of wellbeing and sustainability. Meanwhile approaches to wellbeing accounting continue to be developed by organisations like Social Value International, the Capitals Coalition and the newly formed International Foundation for Valuing Impacts (IFVI). The OECD, with its work on wellbeing and involvement in the Impact Management Platform (IMP), is well placed to bridge these two conversations.

### **Aligning approaches to appraisal and accounting for public sector investment and expenditure**

Another critical element would be inter-operability between the approach to assessing the potential costs and benefits of public investment and expenditure with the approach to accounting for those costs and benefits. Since public accounting does not yet require an account of wellbeing, the assessment of the actual costs and benefits depends on irregular evaluations.

Again, an approach to wellbeing accounting, associated with digitalisation to provide consistency and transparency, would make it possible to compare, in terms of wellbeing, the actual costs and benefits with original cost-benefit appraisals at the same time as providing departmental or entity wellbeing accounts.

### **Aligning approaches to materiality**

There is a risk in bringing a private sector approach to sustainability reporting, with its focus on risk management and financial returns, into public sector accounting. This could limit assessment and reporting to the risks of sustainability issues to public finances. This is not the same as understanding and accounting for the consequences to users' wellbeing arising from public services or public investments.

Double materiality is a term that has only relatively recently been used, sometimes to differentiate sustainability information that is relevant to users whose interest is limited to financial returns from users who have a wider interest. It is also used to differentiate external influences on an organisation's ability to generate financial returns from internal influences of an organisation on sustainable development. UNDP's SDG Impact Standards refer to wellbeing as the common unit and considers wellbeing materiality; information that is useful for those whose interest is an expectation of human rights and improvements in wellbeing. Government's interest is also wellbeing. Even when using financial accounts as the basis for calculating tax liabilities, government has to consider both the tax and the risk that a business has other impacts which the government then has to provide services to address.

There is an opportunity for wellbeing accounting to contribute to an integrated approach to materiality for both public and private sector.

### **Integrating public and private approaches to wellbeing valuation**

Impact valuation in the not-for-profit and private sector has been increasing, building on work by SVI and the Capitals Coalition using monetisation and other quantitative techniques. The Capitals Coalition has supported [the Value Accounting Network](#) to share practise and [the Value Commission](#) to support transparency. Organisations, like [IFVI](#) and [GIST](#), have continued to develop approaches to valuation. As above, OECD's [paper on wellbeing valuation](#) for employee wellbeing and inequality sits alongside a [standardised pilot survey](#). Cost Benefit Analysis, as referenced above, has a long history of valuing benefits relating to public sector expenditure and UK Treasury has issued guidance as referenced above on wellbeing valuation. Businesses like [Simetrica-Jacobs](#) have developed approaches to wellbeing valuation which have grown out of CBA.

An accounting system based on wellbeing will need a common unit to support decisions to allocate resources that best contribute to wellbeing, recognising trade-offs between positive and negative impacts. The [UNDP SDG Impact Standards](#) specifically refer to these trade-offs and need for quantification using wellbeing as a common unit and the need for organisation to take a systematic approach to recording trade-offs in decisions, which would be a basis for a wellbeing accounting system.

## Conclusion

This short paper has identified some of the key developments that show a collective advancement towards an accounting system for wellbeing. There is now an opportunity to pull all of these threads together and adopt the necessary public sector accounting and reporting practices so that government expenditure meets demands for transparency, accountability and integrity of impact. A harmonized system for wellbeing accounting would provide governments a better understanding of impacts and dependencies related to the national economy.

Closer working between those involved in public, private and social economy sectors and between national and organisational approaches to wellbeing will help and allow cross referencing and cross fertilisation.

Fundamentally a new integrated accounting and reporting system is required. A system that will be the basis for management accountants, company and public sector reporting and national accounts.

A consortium approach of the organisations referenced in this report can build the equivalent system for wellbeing building from, and integrated with, double entry accounting and bookkeeping. This would provide information that would incentivise human creativity and entrepreneurialism towards creating and improving wellbeing for all, reducing unintended consequences and duplication of effort between public and private sectors and supporting a more equitable, effective and efficient allocation of resources.