Accruals and Performance: Two Key Tools to Steer Public Finances – Austrian Experience since 2013

Gerhard Steger, SAI Austria

25 January 2016
Central government: as of 2013; sub national governments: as of 2019/2020; objective: ONE accounting and budgeting system based on accruals for all levels of government

Cash flow statement: Provides perspective on liquidity

Operating statement: Provides perspective on use of resources

Cash flow statement and operating statement are part of the annual budget bill

Balance sheet: Compares assets and liabilities; part of annual financial statement

International Public Sector Accounting Standards (IPSAS) applied as appropriate

External costs of reform for central government: ~30 million €
Provisions for contingent liabilities: Probability >50 %

Adjustments of value and write offs

Order now, pay later

Net assets: substantially negative

These risks are NOT DISCLOSED in a „cash only“ accounting and budgeting system

See detailed figures in annex
Sustainability of public finances requires clarity about financial consequences of decisions.

Pure cash can’t provide that.

Accruals can.
Performance Budgeting – Why?

- Traditional budgeting is a decision on: Who gets how much?
- No decision on intended results in context of budget approval
- Traditional budget decision lacks decision on: Who has to deliver which results?

Performance budgeting links
- decisions on allocation of resources
- decisions on intended results for citizens

Performance budgeting aims at steering resources and results consistently and

Provides transparency to citizens: Value for tax-payers money
Tools of Performance Budgeting in Austria

- Medium-term perspective (strategy report related to 4 years expenditure framework) includes intended impact of each budget chapter
- Intended outcomes and outputs are integral part of annual budget decisions
- Standardized impact assessment for draft legal acts and major spending programs (ex ante)
- Evaluation of legal acts and major spending programs (ex post)
Austrian Performance Budgeting Pyramid

Max. 5 outcome objectives, at least 1 gender objective

Global Budget
1 – 5 primary activities

Mission statement

Budget Chapter ~ Ministry

Annual Budget Statement

Explanatory budget documents

Performance plans for administrative units
Practical Example: Labour Market (Summary)

Outcome: Improving ability to work for elderly persons (50+)

- Why? Know how; contributes to growth and productivity; securing affordability of social system

- How? Fostering re-integration into the labour market; support programs

- Success? Employment rate for elderly persons; number of persons supported by allowances;
Performance budgeting can trigger a focus on results and substantially improve value for money if:

- Design is robust and limits complexity
- Reform is well prepared (technically and concerning awareness)
- Involved stakeholders make sufficient use of it
- Watchdogs assure relevance and quality
- Decision makers are committed to back performance budgeting
- Stakeholders are aware: Cultural change takes time and is never finished
Accruals and Performance: Role of Austrian SAI

- Strong supporter of reform

- Task enrichment for SAI

- “Watchdog“-role for SAI
  - SAI audits financial statement
  - SAI audits application of performance budgeting
Thank you for your attention!

Gerhard Steger
Austrian Court of Audit
Tel: +43 1 711 71-8625
steger@rechnungshof.gv.at
www.rechnungshof.gv.at
ANNEX
Austrian Budget Reform

- Result-oriented management of administrative units
  - 2013
  - 2009

- Performance budgeting
  - unanimous decisions in parliament 2007, 2009

- New budget structure: „lump-sum budgets“

- Accrual accounting and budgeting

- Budgetary discipline and planning:
  - binding medium term expenditure framework

- Flexibility for line ministries through full carry-forward of unused funds

- new budget principles: outcome-orientation; efficiency; transparency; true and fair view

Gerhard Steger
SAI Austria
25 January 2016
Role of Austrian SAI in Budget Reform

- Strong supporter of reform:
  - accruals provide true and fair view
  - performance budgeting enhances accountability for results

- Task enrichment for SAI

- Implementing the reform: close cooperation with MoF while strictly observing the independence of SAI

- „Watchdog“-role for SAI
  - correct application of accruals
  - consistent execution of performance budgeting
Provisions for contingent liabilities: Probability > 50 %

Financial statement 2014 (central government):

- provisions for guarantees: -2,8 bn €
- provisions for cost of pending litigation: -0,6 bn €
- provisions for diverse entitlements for the benefit of staff (severance; jubilee; unused holiday): -2 bn €
- annex: pension liabilities: -307,5 bn €

These risks are NOT disclosed in a „cash only“ accounting and budgeting system.
Adjustments of value and write offs

Financial statement 2014 (central government):
- write offs of shares: -1,25 bn €
- write offs of receivables: -1,2 bn €
- adjustments of value of tax receivables: -4,45 bn €

These risks are NOT disclosed in a „cash only“ accounting and budgeting system.
Order now, pay later

- Financial statement 2014: railway infrastructure
- cash flow statement: ~2,2 bn €
- operating statement: ~3,6 bn €
- ~1,4 bn € not covered by cash flow statement

Deficit of central government 2014: cash flow does not reflect the entire financial truth

- ~3,2 bn € according to cash flow statement
- ~9,1 bn € according to operating statement
Benefit of Accruals: Fiscal Illusions averted

- Selling of assets: „Cash only“ shows revenue, not reduced assets — fiscal illusion

- Purchasing of assets: „Cash only“ depicts purchasing price, not new assets

- Is a country richer or poorer compared to last year(s)? „Cash only“ cannot answer this crucial question, accruals can.

- Depreciation of public investments: allocates use of resources according to useful life (operating statement), while cash flow statement allocates entire investment to year of pay

(central government)

## Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A Non-current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.I Intangible assets</td>
<td>455</td>
<td>452</td>
<td>368</td>
<td>87</td>
</tr>
<tr>
<td>A.III Securities and other investments</td>
<td>300</td>
<td>2.400</td>
<td>3.824</td>
<td>-3.524</td>
</tr>
<tr>
<td>A.IV Equity investments</td>
<td>25.436</td>
<td>24.544</td>
<td>25.189</td>
<td>247</td>
</tr>
<tr>
<td>B Current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.I Short-term financial assets</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B.II Short-term receivables</td>
<td>11.578</td>
<td>11.654</td>
<td>8.500</td>
<td>3.078</td>
</tr>
<tr>
<td>B.III Inventories</td>
<td>418</td>
<td>701</td>
<td>699</td>
<td>-281</td>
</tr>
<tr>
<td>B.IV Cash and cash equivalents</td>
<td>3.348</td>
<td>4.160</td>
<td>4.209</td>
<td>-861</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>87.415</strong></td>
<td><strong>90.182</strong></td>
<td><strong>89.509</strong></td>
<td><strong>-2.094</strong></td>
</tr>
</tbody>
</table>

## Net Assets and Liabilities

<table>
<thead>
<tr>
<th></th>
<th>-148.327</th>
<th>-140.591</th>
<th>-134.167</th>
<th>14.160</th>
</tr>
</thead>
<tbody>
<tr>
<td>D Non-current liabilities</td>
<td>198.770</td>
<td>188.051</td>
<td>187.220</td>
<td>11.550</td>
</tr>
<tr>
<td>D.I Long-term financial liabilities, net</td>
<td>177.604</td>
<td>169.905</td>
<td>169.702</td>
<td>7.902</td>
</tr>
<tr>
<td>D.III Long-term provisions</td>
<td>4.950</td>
<td>3.480</td>
<td>3.513</td>
<td>1.437</td>
</tr>
<tr>
<td>E Current liabilities</td>
<td>36.972</td>
<td>42.722</td>
<td>36.457</td>
<td>515</td>
</tr>
<tr>
<td>E.I Short-term financial liabilities, net</td>
<td>18.607</td>
<td>24.037</td>
<td>19.849</td>
<td>-1.242</td>
</tr>
<tr>
<td>E.II Short-term payables</td>
<td>17.318</td>
<td>17.995</td>
<td>16.156</td>
<td>1.162</td>
</tr>
<tr>
<td>E.III Short-term provisions</td>
<td>1.048</td>
<td>690</td>
<td>452</td>
<td>596</td>
</tr>
<tr>
<td><strong>Total net assets and liabilities</strong></td>
<td><strong>87.415</strong></td>
<td><strong>90.182</strong></td>
<td><strong>89.509</strong></td>
<td><strong>-2.094</strong></td>
</tr>
</tbody>
</table>

Gerhard Steger

SAI Austria

25 January 2016
Austrian SAI disclosed some shortcomings in technical application of accruals ➔ quick adjustment necessary Examples:

- IT-interfaces and different IT-applications resulted in some accounting errors
- accounting errors concerning leases
- need for enhancement of valuations (land owned by central government; present value concerning long-term receivables)
- inventories not always reviewed annually
- deficiencies in recognizing provisions (pending litigation)
Ministries: Propose outcomes, outputs, indicators to Parliament for decision; relation to chancellery: comply or explain; practice impact assessment and evaluation

Chancellery: Supports and monitors ministries; not authorized to issue directives to ministries; reports to Parliament on results of monitoring

Parliament: Takes decisions; may amend performance proposals of ministries

SAI: Audits application of performance budgeting principles: relevance, consistency, understandability, confirmability, comparability, verifiability
- Key tool of performance budgeting
- Applies for legal acts and major spending programs
- Several dimensions (see next page)
- Forces administration to ex-ante clearly assess
  - financial consequences of the respective issue?
  - consequences for the diverse dimensions?
- Supported by a standardized IT-tool
Dimensions of Impact Assessment

Impact on

- budget
- economy
- environment
- social issues
- gender
- consumers
- children and youth
- administrative costs for citizens and enterprises
Impact Evaluation

- **Evaluation**
  - legal acts and major spending programs
  - in charge: respective line ministry
  - time interval: 5 years

- **Impact controlling**
  - intended outcomes and outputs defined in the budget
    + results of evaluations in line ministries
  - in charge: chancellery in cooperation with line ministries
  - twice a year: report to parliament