Der Rechnungshof

Independent. Objective. Effective.

Accruals and Performance:

Two Key Tools to Steer Public Finances – Austrian Experience since 2013

Gerhard Steger, SAI Austria

25 January 2016

Accrual Accounting and Budgeting in Austria - Overview

Der Rechnungshof
Independent. Objective. Effective.

- 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 €

Benefit of Accruals: Disclosure of Risks

Der Rechnungshof
Independent. Objective. Effective.

- 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

Accruals: Conclusions

Der Rechnungshof
Independent. Objective. Effective.

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

Der Rechnungshof
Independent. Objective. Effective.

- 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

Practical Example:
Labour Market (Summary)

Der Rechnungshof

Independent. Objective. Effective.

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: Conclusion

Der Rechnungshof

Independent. Objective. Effective.

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 peformance budgeting**
- **Stakeholders are aware: Cultural change takes time and is never finished**

Accruals and Performance: Role of Austrian SAI

Der Rechnungshof

Independent. Objective. Effective.

- 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

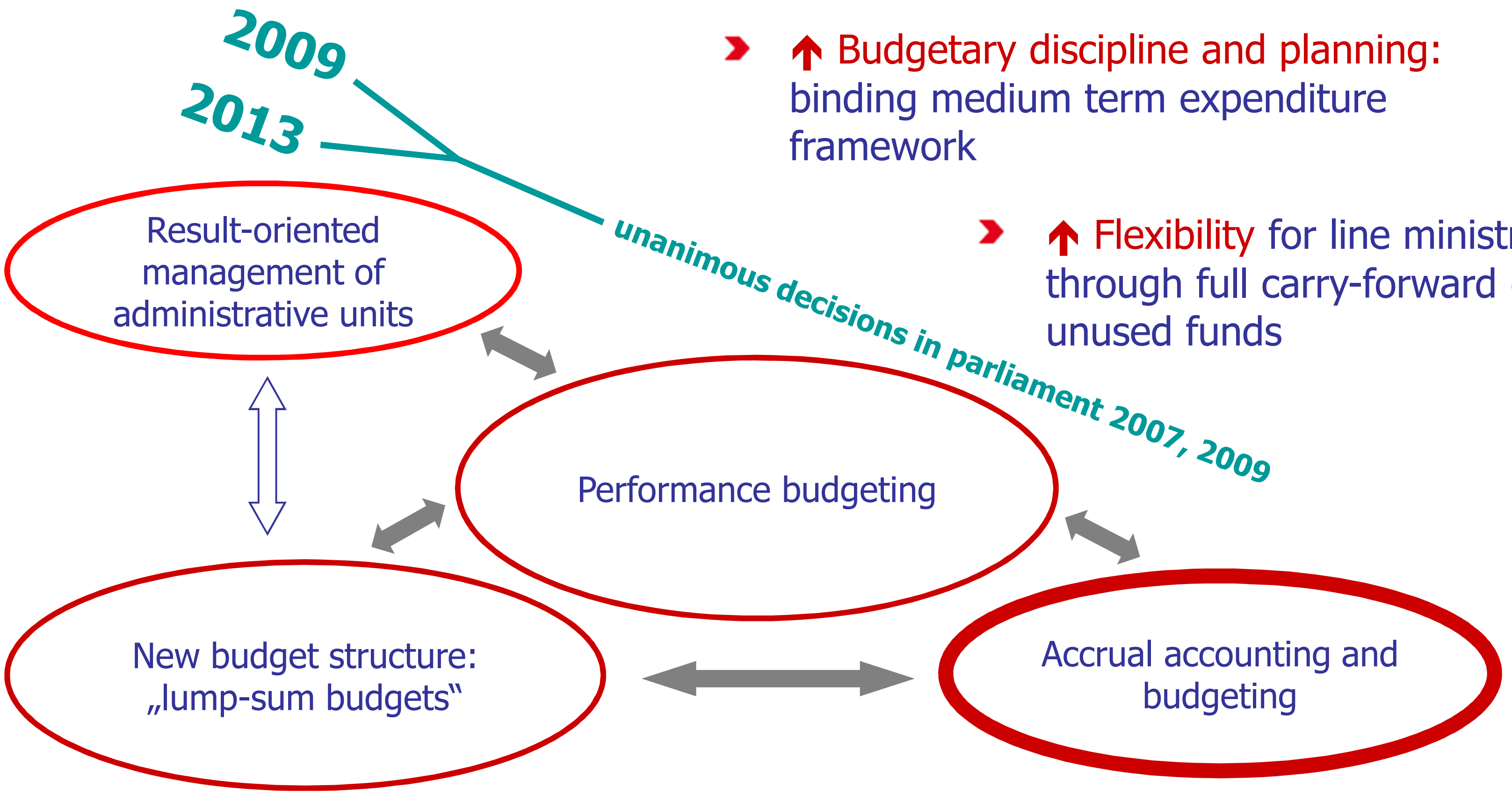
ANNEX

Austrian Budget Reform

Der Rechnungshof

Independent. Objective. Effective.

- ↑ 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

Role of Austrian SAI in Budget Reform

Der Rechnungshof
Independent. Objective. Effective.

- **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

Benefit of Accruals: Disclosure of Risks 1

Der Rechnungshof

Independent. Objective. Effective.

- **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.**

Benefit of Accruals: Disclosure of Risks 2

Der Rechnungshof
Independent. Objective. Effective.

- 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.

Benefit of Accruals: Disclosure of Risks 3

- **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

Der Rechnungshof
Independent. Objective. Effective.

- **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**

Austrian Balance Sheet 31.12.2014 : 1.1.2013 (Central Government)

Der Rechnungshof

Independent. Objective. Effective.

ASSETS	31.12.2014 in Mio EUR	31.12.2013 in Mio EUR	1.1.2013 in Mio EUR	Difference 1.1.2013 - 31.12.2014
A Non-current assets	**72.071**	**73.667**	**76.102**	**-4.031**
A.I Intangible assets	455	452	368	87
A.II Property, plant and equipment	39.298	39.469	39.589	-291
A.III Securities and other investments	300	2.400	3.824	-3.524
A.IV Equity investments	25.436	24.544	25.189	247
A.V Long-term receivables	6.582	6.802	7.132	-550
B Current assets	**15.344**	**16.515**	**13.407**	**1.937**
B.I Short-term financial assets	0	0	0	0
B.II Short-term receivables	11.578	11.654	8.500	3.078
B.III Inventories	418	701	699	-281
B.IV Cash and cash equivalents	3.348	4.160	4.209	-861
Total assets	**87.415**	**90.182**	**89.509**	**-2.094**

NET ASSETS AND LIABILITIES				
C Net assets (balancing item)	**-148.327**	**-140.591**	**-134.167**	**14.160**
D Non-current liabilities	**198.770**	**188.051**	**187.220**	**11.550**
D.I Long-term financial liabilities, net	177.604	169.905	169.702	7.902
D.II Long-term payables	16.215	14.666	14.005	2.210
D.III Long-term provisions	4.950	3.480	3.513	1.437
E Current liabilities	**36.972**	**42.722**	**36.457**	**515**
E.I Short-term financial liabilities, net	18.607	24.037	19.849	-1.242
E.II Short-term payables	17.318	17.995	16.156	1.162
E.III Short-term provisions	1.048	690	452	596
Total net assets and liabilities	**87.415**	**90.182**	**89.509**	**-2.094**

SAI Conducts Watchdog-Role

Der Rechnungshof

Independent. Objective. Effective.

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)**

Performance Budgeting in Austria – Institutional Roles

Der Rechnungshof

Independent. Objective. Effective.

- **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**

Impact assessment

- Key tool of performance budgeting
- Applies for legal acts and major spending programs
- Several dimensions (see next page)
- Forces administration to ex-ante clearly asses
  - 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

Der Rechnungshof

Independent. Objective. Effective.

- **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**