

BUDGET

REFORM

Putting tax money to effective use for citizens.

The accounting system (regulation and system)

Eva-Maria Eienbach

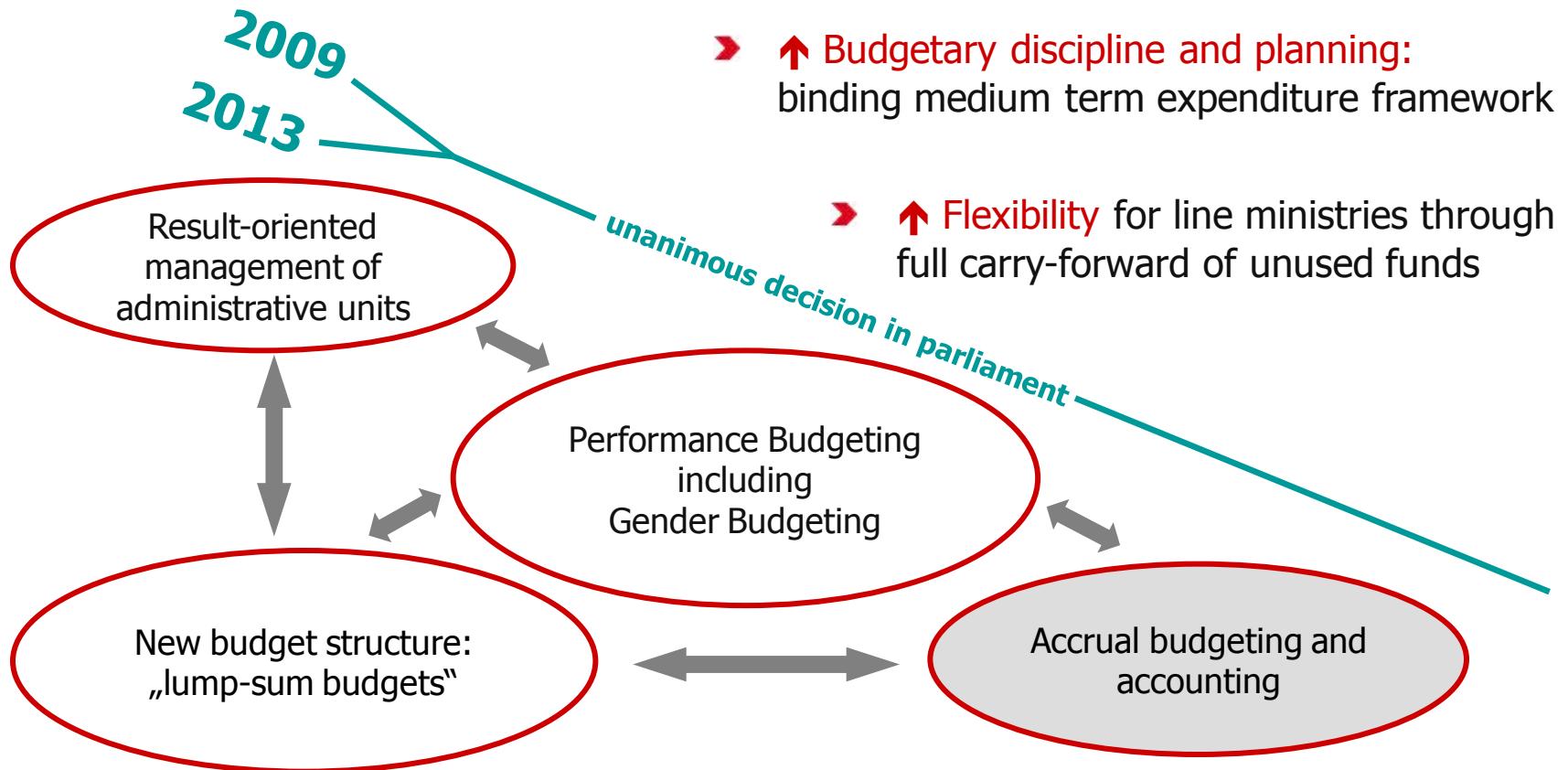
Bernhard Schatz

Budgetary Reform in Austria



- **Primary motivation: Improved budgetary decision-making**
- **Addresses the following weaknesses of the current system:**
 - No binding medium-term perspective
 - Prevailing focus on inputs
 - Control monopoly of classic cameralistics
- **The budget as a comprehensive steering instrument for resources & outputs & outcomes**
- **Implementation in two stages: 2009 and 2013**
- **Unanimous decision in Parliament**

Austrian Federal Budget Reform - Overview



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

The Austrian federal budget reform

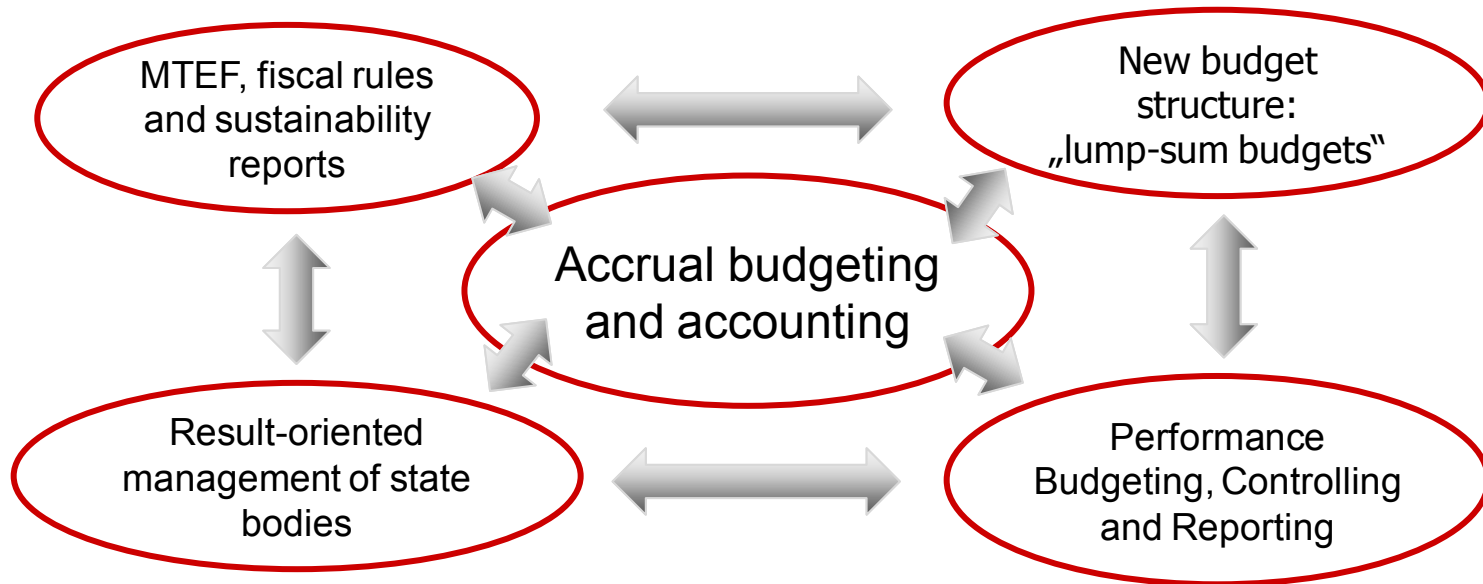


- is a comprehensive reform addressing the whole system and not only specific elements
- is more than an accounting reform and a change in managerial, budgetary and accounting rules
- involves **cultural change** within the administration as well as on the political level (setting priorities, defining measurable objectives, transparent decision-making, etc.)

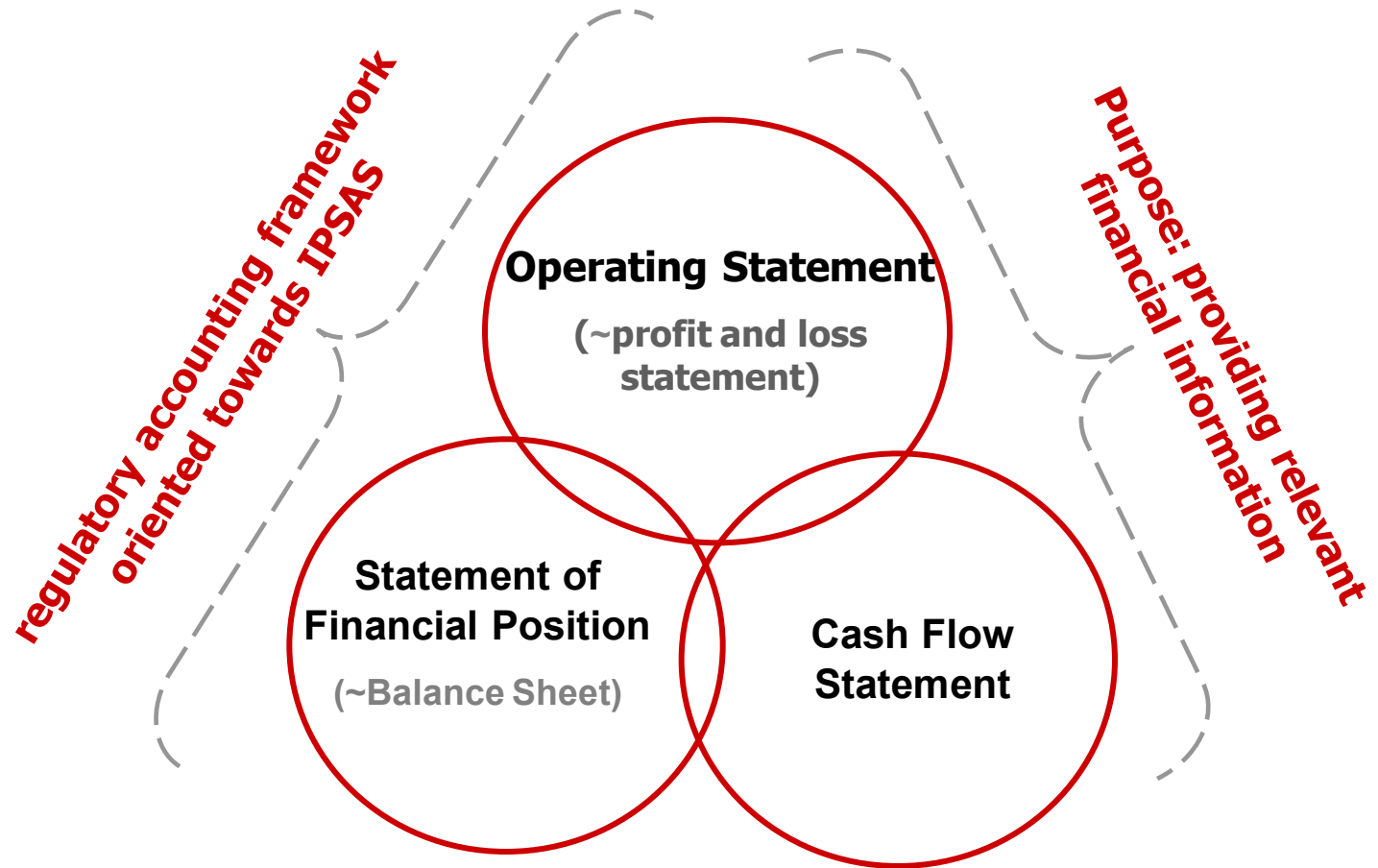
Accrual budgeting & accounting as of 2013 I

Amendment of the constitution:

- New budgetary principles:
impact orientation, efficiency, transparency, true and fair view
- **Integration of accruals in a general framework of financial management**
- New Balance of Managerial Flexibility and Accountability
- Improved Management of finances and performance by integrated approach



Accrual budgeting & accounting as of 2013 II



Accounting system: 1986 – 2012

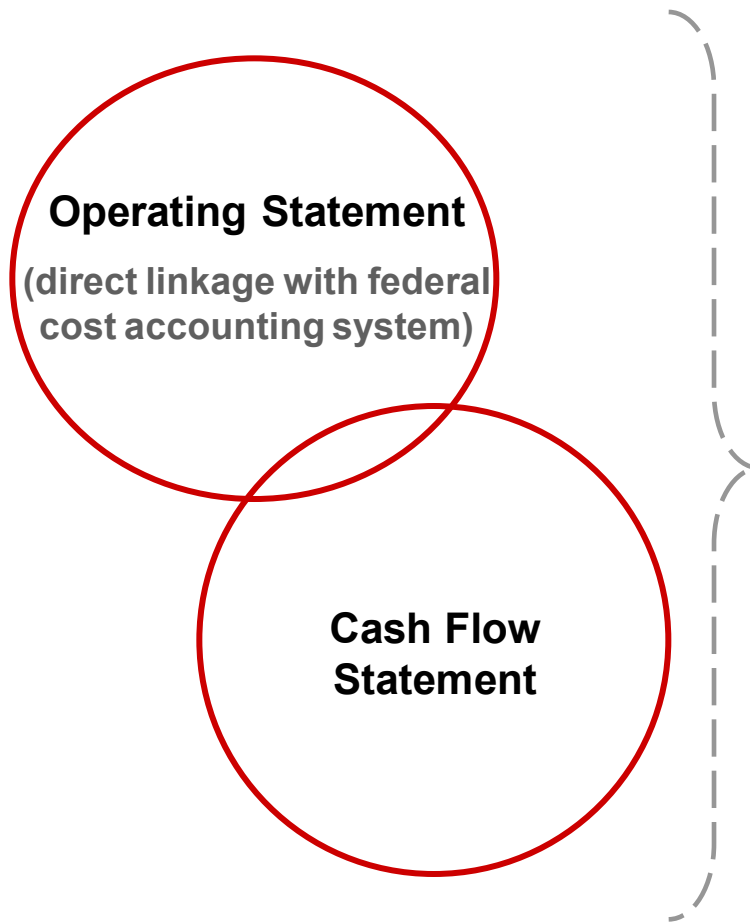


- **Cash budget (with some accrual modifications)**

- **Incomplete accrual accounting system:**
 - No appropriate valuation rules
 - No management impact
 - IT-infrastructure in place
 - Some practical experience of staff with accruals

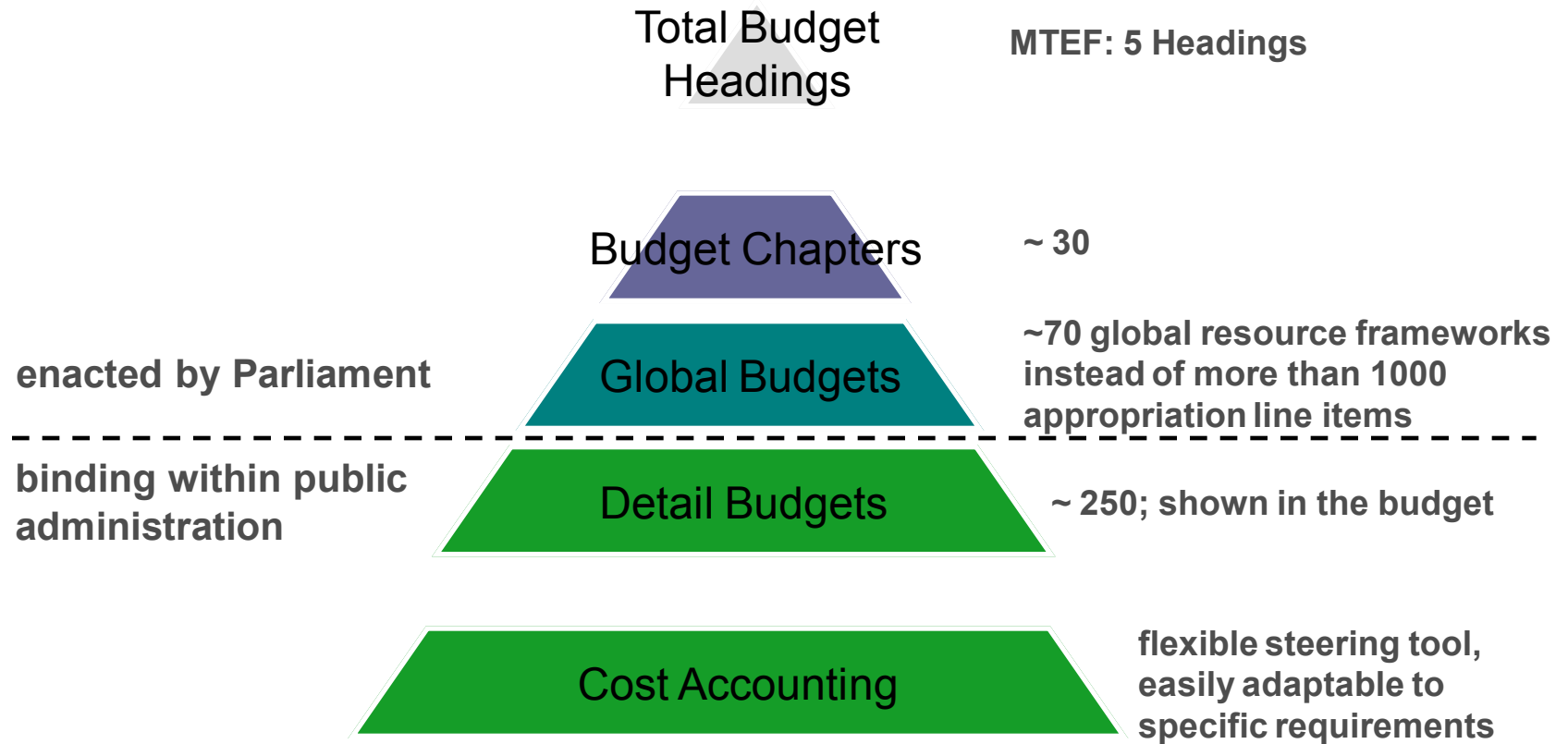
- **Cost accounting:**
 - Implementation in central units of the ministries from 2000 – 2005
 - No steering function

Accrual budgeting as of 2013



- two perspectives: use of resources; liquidity
- integration of non-cash items in operating budget → **no cash appropriations for non-cash items such as depreciation and provisions**
- monthly liquidity management process

New budget structure



Transparent budget structure as a prerequisite for other reform elements

Reporting entities in the federal accounting system

- **Federal accrual system is obligatory for Federal Level:**
 - Ministry of Finance
 - All line ministries
 - All federal agencies

→ Standard setting by MOF and Court of Audit

- **Separate reporting:**
 - Regional level (9 provinces/states)
 - Local level (municipalities)
 - Off-budget corporatisations (see next slides)

- **Efforts to develop an aligned framework for regional and local level**

Outsourcing in Austria: legal and institutional framework

Decentralisation:

transfer of tasks from public administration to public and private entities operating at arm's length with the government

Institutional and legal framework:

- 100% owned **by competent ministry**
- set up **by law** either as private limited company or
- specific public entity
- **autonomous financial management:** financial flows in/out of the state budget based on different activities and parameters
- **autonomous personnel management**
- exceptions for "inherited staff" from parent ministry

Outsourcing in Austria: legal and institutional framework

Corporate governance:

- Management or chief executive **accountable to supervisory board**
- **Supervisory board:** chaired by civil servant from parent ministry, at least one member from MoF

Grand scale:

- **Around 130 bodies in the last two decades**
- **Shift of 55% of government employees**
- incl. Austrian Post and Austrian Railways: 100.000;
Universities: 20.000

Important for Public Finances: Consideration in whole-of-government deficit and debt ratios

List of examples for off-budget corporatisations

Cultural and educational institutions: Universities, Zoo of Schönbrunn, Schönbrunn Castle, federal theatres, federal museums, Spanish Horse Riding School

Support services and others: Federal computer centre (BRZ), federal debt management (ÖBFA), unemployment service (AMS), Statistics Austria (= national statistical office)
→ Accounting according to Austrian corporate act

Services of general economic interest, infrastructure: Austrian railways (ÖBB), post and telecommunications, state press, federal real estate management (BIG), ASFINAG (highway construction and operation)
→ Accounting according to IFRS/IAS

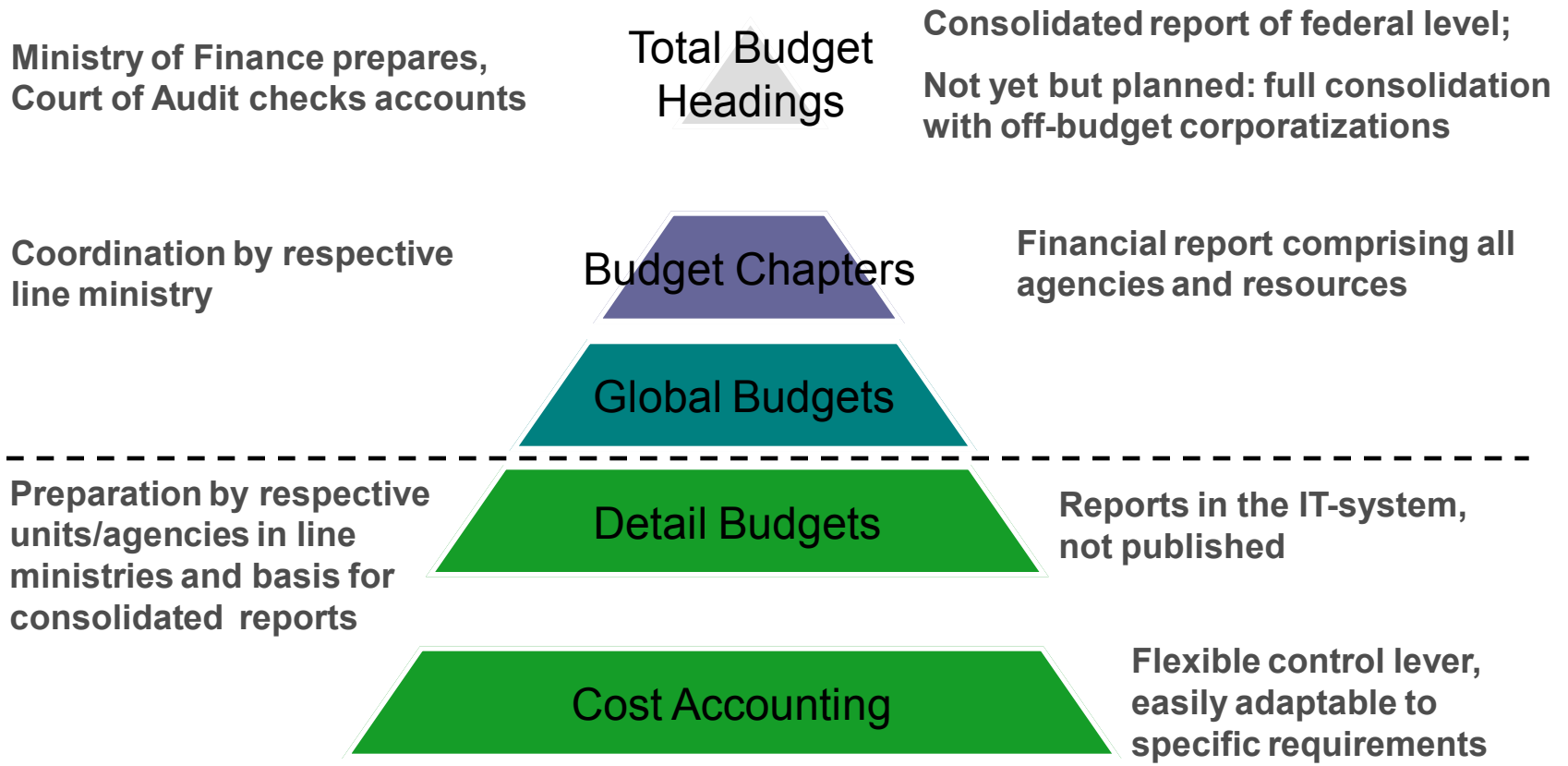
Objectives and expectations on decentralization 20 years ago

- **More efficiency and cost-effectiveness in the provision of public services**
 - more autonomy of the management
 - greater accountability and responsibility
 - output oriented steering and control
 - accrual accounting
- **Substantial relief of the federal budgets**
- **Reduction in the number of state employees**
- **Facilitation in meeting the Maastricht criteria (public deficit and total public debt)**

→ **Problematic: Control and governance insufficiencies**

→ **Latest development: With the new budgetary framework according to the budget reform 2009/2013 most objectives can be met WITHIN government, i.e. decentralization has become obsolete**

Reporting structure in accounting



Regulations for the accounting system

Standard set of rules defined by the Ministry of Finance and the Court of Audit

- Basis is laid in the **Austrian Federal Constitution: true** and fair view as new budgetary principle as of 2013
- Main features of the accrual system are defined in the **organic budget law**, enacted by the Parliament
- Details on the accrual system can be found in **detailed regulations** (based on the organic budget law), first and foremost in the
 - Regulation on the opening balance sheet (Eröffnungsbilanz-Verordnung) issued by the Ministry of Finance
 - Accounting regulation (Rechnungslegungs-Verordnung): issued by the Court of Audit in consultation with the Ministry of Finance
 - Budget regulation (“Bundeshaushalts-Verordnung”) issued by the Ministry of Finance in consultation with the Court of Audit

Strategic approach in reform development and implementation I

- **Intensive study of other countries' reform experience:** Learning about do's and don't's, intercultural aspect to be considered
- **Making the reform process irreversible:** Key elements in constitutional amendments, detailed legislation at a later stage
- **Reform design and implementation through own staff:** Keeping external consultancies to a minimum, building and strengthening internal know-how
- **Pragmatic reform design:** Reducing complexity, less is more, no 100% perfectionist approach
- **Ensuring a pilot phase** for sufficient testing

Strategic approach in reform development and implementation II

- **Ministry of Finance (MOF) as reform driver and standard setter**
- **Winning interest and support on political level**
- **Getting key players on board:**
 - **Politics and Parliament:**
 - “Advisory Council Budget Reform” with representatives of all political parties, regular meetings and discussions with MoF
 - Keeping the reform out of political controversy
 - **Court of Audit:** Shared interest with MOF as “friends of the tax payer”,
 - **Federal Chancellery:** Responsible for coordination, controlling and evaluation of performance, while MOF coordinates the resources
 - **Line Ministries:** Continuous involvement, training phase for preparation of the new “budget world”

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The path towards IPSAS

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Decision criteria concerning accruals

➤ **Pros:**

- Accruals are basis for ESA (European System of Accounts)
- Accruals provide additional, better data
- Cash management is integral part of accrual system
- Accrual budgeting makes accruals relevant
- Accruals are compatible with cost accounting

➤ **Scepticism:**

- Too complicated (especially for members of parliament)
- High implementation costs
- Problems in transition
- Information not needed

Decision in favour of accruals

- **Accrual system provides more and better information than a mere cash system**
- **Accrual budgeting makes accrual relevant**
- **Old system had already accrual components**
 - IT-system on accrual basis
 - Accountants had basic accrual knowledge
 - Transition costs, therefore, were not so high (total IT-costs: 23 millions)
- **Pragmatic transition model**
 - Cash-based budget was used to develop accrual budget
 - Non-cash items were added
 - Training model where old and new world was related for different target groups (for 2 – 3 years)
- **Court of Audit is partner in development**

Conceptual ideas for accruals in Austria

- **Part of a comprehensive reform addressing the whole system and not only specific elements** → focus in discussion on performance budgeting, relieved from discussion about accruals in general and in detail
- **Pragmatic approach with long-term perspective:** Systematic recording and appropriate valuation of assets
- **Realistic objectives and overly ambitious expectations:** Integration of the different systems
- **Alignment with statistics (avoid duplication)** → Convergence of Maastricht deficit and deficit in Austrian system

Why IPSAS?

IPSAS (=International Public Sector Accounting Standards)

- IPSAS are based on accruals
- IPSAS have wide dissemination
- Accounting standards for the public sector
- Potential for harmonization
- Reference for accounting questions
- IPSAS can increase transparency, improve consistency and accountability
- National standards base on prudence principle, not in alignment with IFRS, changes in future expected

Standards

Number	Name	German translation
IPSAS 1	Presentation of Financial Statements	Darstellung des Rechnungsabschlusses
IPSAS 2	Cash Flow - Statements	Geldflussrechnung
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	Bilanzpolitik, Änderungen von Schätzungen und Fehlern
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	Wechselkursschwankungen bei der Bewertung von Transaktionen in fremder Währung
IPSAS 5	Borrowing Costs	Fremdkapitalkosten
IPSAS 6	Consolidated Financial Statements and Accounting for Controlled Entities	Konsolidierter Rechnungsabschluss und Beteiligungen an verbundenen Unternehmen
IPSAS 7	Accounting for Investments in Associates	Beteiligungen an assoziierten Unternehmen
IPSAS 8	Financial reporting of Interests in Joint Ventures	Joint Ventures
IPSAS 9	Revenue from Exchange Transactions	Tauschgeschäfte
IPSAS 10	Financial Reporting in Hyperinflationary Economies	Berichtswesen in Hyperinflationären Volkswirtschaften
IPSAS 11	Construction Contracts	Bau- und Herstellungsaufträge
IPSAS 12	Inventories	Vorräte
IPSAS 13	Leases	Leasingvereinbarungen
IPSAS 14	Events after the Reporting Date	Periodenabgrenzung für Ereignisse nach dem Rechnungsabschlussstichtag

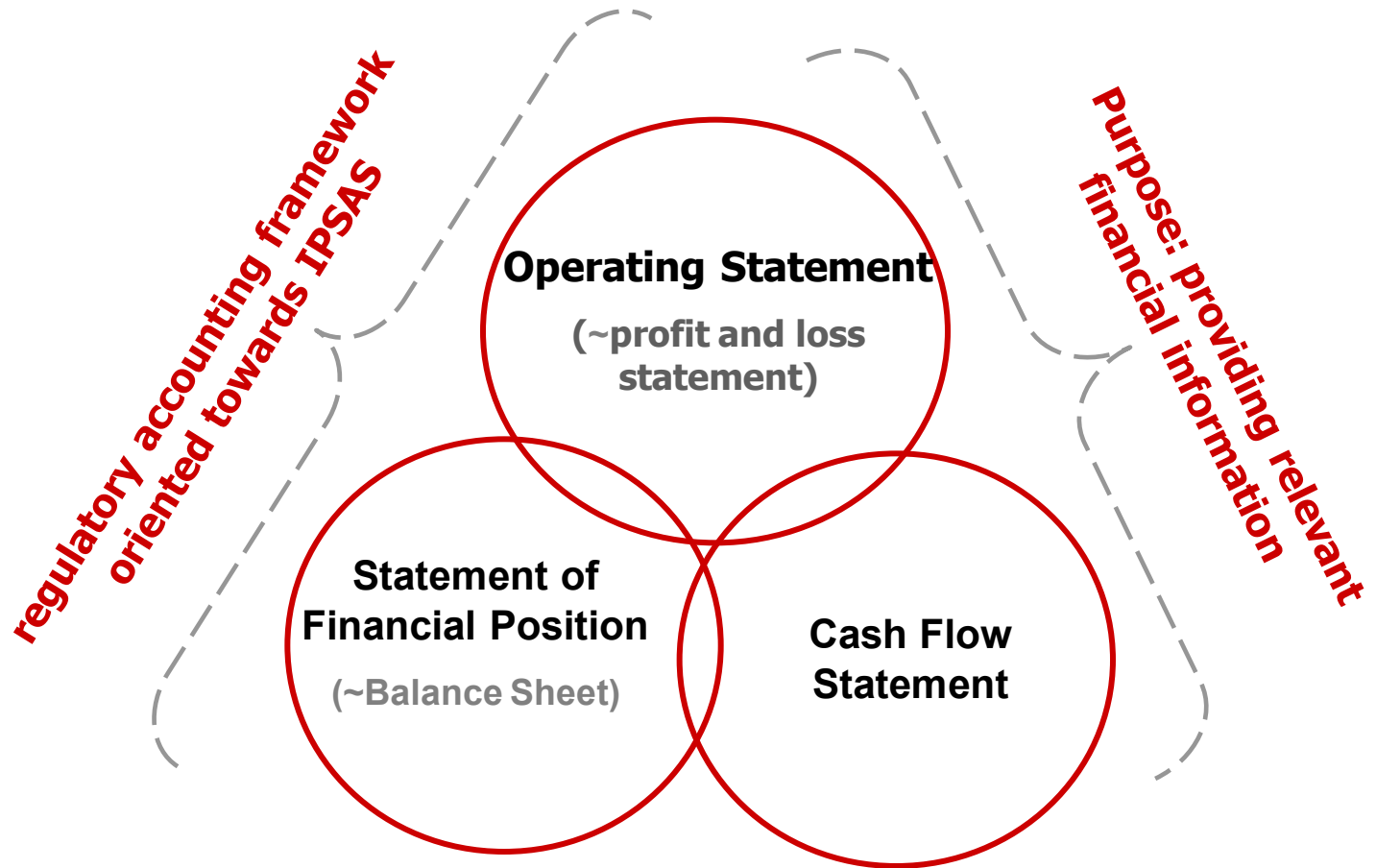
Standards

Number	Name	German translation
IPSAS 15	Financial Instruments: Disclosure and Presentation	Finanzierungsinstrumente
IPSAS 16	Investment Property	Grundstücke und Gebäude, die der Veranlagung dienen
IPSAS 17	Property, Plant and Equipment	Sachanlagevermögen
IPSAS 18	Segment Reporting	Segmente
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	Rückstellungen, Eventualverpflichtungen und Eventualforderungen
IPSAS 20	Related Party Disclosures	Angaben über Beziehungen zu nahestehenden unternehmen
IPSAS 21	Impairment of Non Cash-generating Assets	Prüfung von Wertminderungsumständen und Wertminderung bei öffentlichen Vermögenswerten
IPSAS 22	Disclosure of Financial Information about the General Government Sector	Ausweis von Finanzinformationen für den Sektor Staat
IPSAS 23	Revenue from Non-Exchange Transactions	Abgaben und andere Transfers
IPSAS 24	Presentation of Budget Information in Financial Statements	Budgetdarstellung im Rechnungsabschluss
IPSAS 25	Employee Benefit	Zuwendungen an Arbeitnehmerinnen und Arbeitnehmer
IPSAS 26	Impairment of Cash-generating Assets	Prüfung von Wertminderungsumständen und Wertminderung bei Vermögenswerten, die der Veranlagung dienen

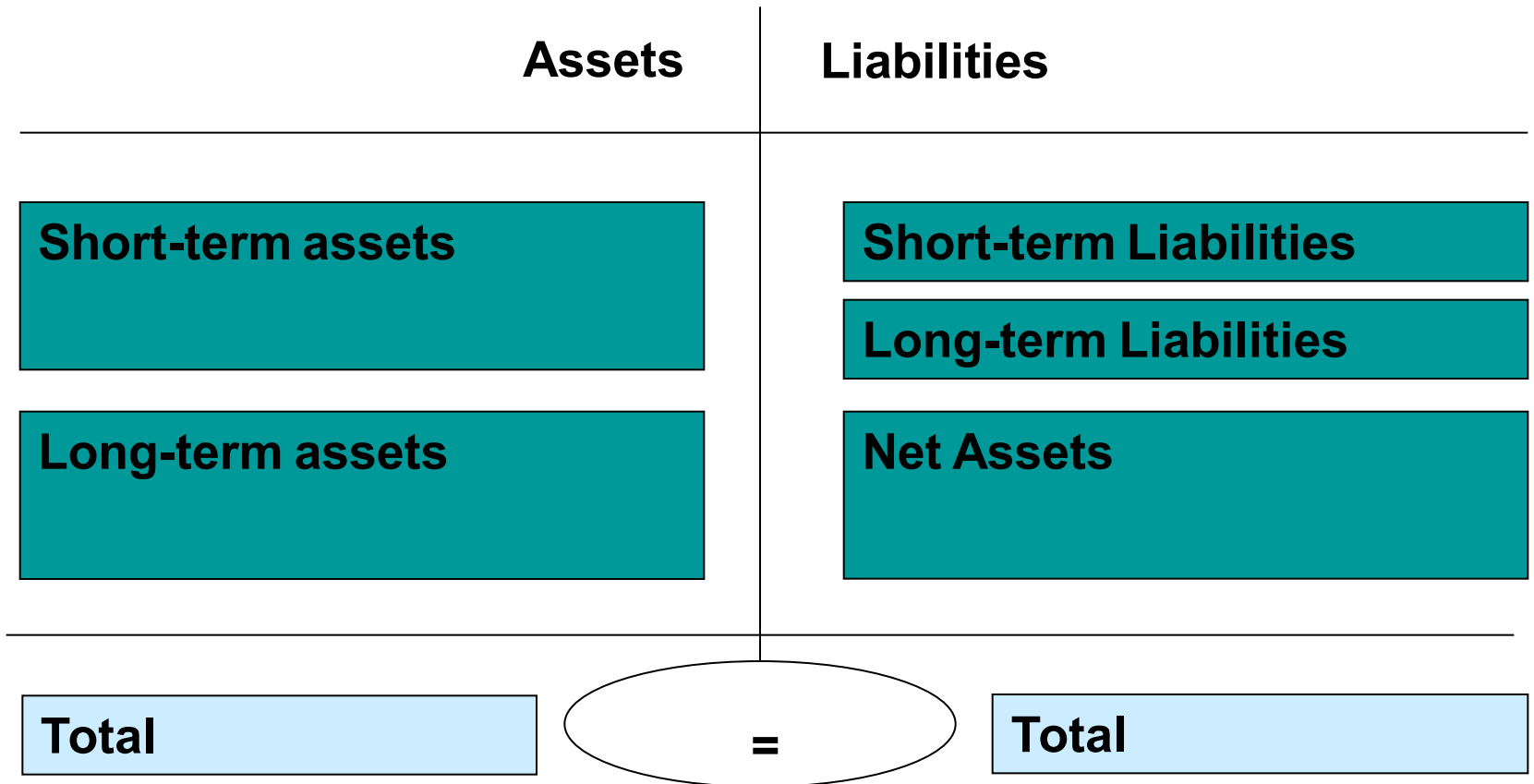
Standard setting

- IPSAS is the reference standard
- No options allowed
- Concentrate on Standards which are relevant for Austria (not relevant: IPSAS 10 (hyperinflation), IPSAS 11 (construction contracts), IPSAS 16 (investment property))
- IPSAS 23: not applicable, tax recognition at cash basis
- IPSAS 6: full consolidation not by 2013 but later in a 3rd phase of the reform
- Try to analyse actual accounting practices which provide insight into complex transactions and good practices
- SAP-standard as reference for best booking practices; reduce implementation complexity

Accrual budgeting & accounting as of 2013



Statement of financial position



Statement of financial position

Example of classification of **short-term assets**:

Short-term assets
Liquid funds
Cash funds
....
Short-term financial assets
Short term receivables
Inventories

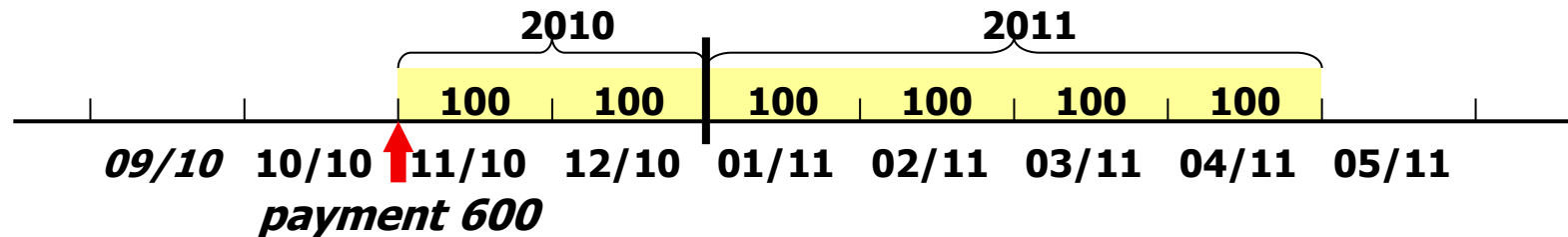
Operating statement

- ~ **Profit-and-loss account**
- Accrual budget consists of
 - budget based on the operating statement
 - operating statement
- Overview of the **expenses** and **revenues**
- Expenses/Revenues are recognized at the time of use of resources/when receivables arise

Operating statement

In the operating statement, budget transactions are allocated on an accrual basis, that means

- **Expenses** are recognized at the time of use of resources, e.g. rents from November 2010 to April 2011 are recorded from 2010 to 2011, even if the payment was made in the financial year 2010



- Insignificant amounts are not accrued
- Technically supported process

Operating statement

Expenses	Revenues
Expenses	Revenues
	Deficit/surplus

Operating statement

Classification:

Operating Statement (§22 Federal Budget Law 2013)

Revenues from operational administrative activity and transfers

Financial revenues

Personnel expenses

General administrative expenses

Transfer expenses

Financial expenses

Operating statement

Example of Classification of Revenues from operational administrative activity and transfers in the Operating Statement:

Revenues from operational administrative activity and transfers
Public levies
Taxes on revenues
Assessed income tax
Payroll tax
...

Cash flow statement

- From the business perspective ~ Cash Flow Statement
- The Cash Budget consists of
 - Budget based on the cash flow statement and
 - Cash flow statement
- Gives an overview of **expenditures** and **receipts** during the year
- Expenditures are recognized at the **time of payment execution**; expenditures are outflows of liquid funds (bank balances, cash) within a financial year, i.e. all expenditures from 1 January to 31 December.
- Receipts are recognized according to the **value date of the account statement**; they are inflows of liquid funds within the financial year.
- Payments made after 31 December must be recognized in the following financial year → **Transition problem**

Cash flow statement

Cash budget (direct calculation)
Total receipts - Total expenditures
Net borrowing (federal financing)

Cash flow statement

Classification:

Cash flow statement (§22 Federal Budget Law 2013)

Receipts from operational administrative activity and transfers
Receipts from investment operations
Receipts from the repayment of loans as well as advance expenditures granted
Expenditures based on operational administrative activity
Expenditures based on transfers
Expenditures based on investment operations
Expenditures based on the granting of loans as well as advance expenditures granted

General valuation rules

Short-term Assets:

Liquid Funds: Nominal Amount

Accounts Receivable: Nominal Amount

Inventories: Acquisition Cost

Long-term Assets:

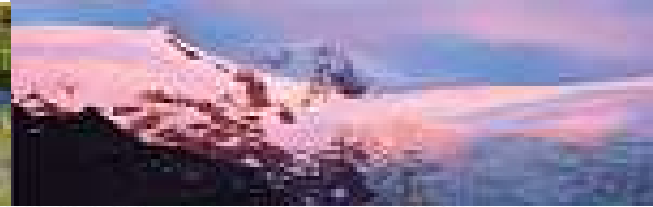
Accounts Receivable: Nominal Amount

Assets: Acquisition Cost

Intangible Assets: Acquisition Cost

(Assets: depreciation and impairment)

Asset valuation



➤ Land

- Full documentation
- Basis: land register
- Categorization derived from land register
- Price of square meter out of tax agency data of land sale
- Deductions for limited use (e.g. bodies of water, alpine land, military land)

Asset valuation



➤ Buildings

- **Historical acquisition and production costs**
- **If not available – 3 options**
 - Overall refurbishment costs
 - Average construction costs of comparable buildings
 - Expert opinion if available
- **Straight-line depreciation**

➤ Property

- Acquisition and production costs
- Asset accounting records used
- Straight-line depreciation
- Impairment



➤ Heritage assets

- IPSAS ED as reference
 - Recognition if acquisition costs are available or if
 - Expert opinion is available
- If not: Registration in asset accounting without value and disclosure on aggregate level in final report
- Many paintings, pieces of art in the museums, many other historical sites (monuments, furniture, etc.)
- Few records available

Asset valuation

➤ Subsidiaries and associated entities

- More than 130
- Wide variety
- Equity method
- No full consolidation
- SAP-tool for systematic data management



➤ Inventories

- Pragmatic approach
- Acquisition costs
- Use of inventory data



Liabilities

Short-term Liabilities:

Financial Debts: Nominal Amount

Liabilities: Amount Repayable

Provisions: (expected) Amount for Payment (e.g. for pending litigation, accumulated vacation pay)

Long-term Liabilities:

Financial Debts: Nominal Amount

Liabilities: Amount Repayable

Provisions: Present Value (actual cash value)
(e.g. for contingent liabilities, for environmental impact cost, for severance pay and seniority bonuses)

Liabilities for pensions displayed in an annex and in fiscal sustainability report

Asset valuation - problems

- Austrian specific problems with complex legal structure (e.g. streets are owned by state, but leased unpaid to agency without restriction)
- Data overflow (e.g. a lot of statistics for subsidiaries with different data bases)
- Tension of true and fair view and pragmatic approach
- Discussion about value added of balance sheet (assets cannot be sold, assets have a cultural value, state is not an enterprise)
- Standard setting and data gathering involve costs

Challenges of project management and implementation

➤ **Standard setting:**

- by Ministry of Finance, Court of Audit and Federal Chancellery
- Information of Parliament

➤ **Budget transition:**

- Cash-related budget elements are based on previous budget model
- Completed by non-cash elements (depreciation, provisions)
- Technical process of adjustment between MOF and line ministries

➤ **Opening balance sheet:**

- Use of information of „old accounting system“
- Data gathering for new elements started 2010, „old“ data updated

➤ **New accounting system:**

- IT-system is crucial
- Tests and concurrent operation in 2011 and 2012

Eva-Maria Eienbach

Advisor Budget Reform
Directorate for Budget and Public Finance

Austrian Federal Ministry of Finance
Tel: +43 1 514 33 50 2257
eva-maria.eienbach@bmf.gv.at

Bernhard Schatz

Deputy Head
Budget Unit II/10 - Infrastructure, Research and
Development, Economics and Agriculture

Austrian Federal Ministry of Finance
Tel: +43 1 514 33 50 2284
bernhard.schatz@bmf.gv.at