



Country Perspectives on Adoption
of International Accounting
Standards and Publishing an
Opening Balance Sheet
The Austrian Reform Experience

GERHARD STEGER, LOS ANGELES, 29 APRIL 2016

Agenda

- I. Why a budget reform? Key elements
- II. Focus: Accrual accounting & budgeting
- III. How to bring stakeholders on board
- IV. How to keep the reform going
- V. Achievements and challenges
- VI. Conclusion

Austria's Budget Reform: Facts & Figures

- ▶ Reform process started in late 1990ies
- ▶ Implementation in two steps: 2009, 2013 (central government) based on unanimous decision in Parliament
- ▶ Main reform drivers: Ministry of Finance and Court of Audit
- ▶ Key reform elements:
 - ▶ medium-term expenditure framework and enhanced budget flexibility
 - ▶ accrual budgeting and accounting
 - ▶ performance (including gender) budgeting
- ▶ External cost of reform: ~ 30 million €

Why Reform? – Fiscal Fog re Future

Traditional budgeting

- ▶ Annual budget perspective dominant; no clear picture of medium-term (let alone long-term) developments

Reform

- ▶ Financial framework law:
 - ▶ 4 years ahead, rolling
 - ▶ expenditure, staff: legally binding ceilings (highly aggregated)
 - ▶ two kinds of ceilings: fixed/variable: countercyclical
 - ▶ strategy report: budget story
- ▶ Long-term fiscal projection (≥ 30 years) each 3 years

Enhanced Flexibility in Budget Execution Within Hard Ceilings

Traditional budgeting

- ▶ Huge number of legally binding line item appropriations
- ▶ Redeployments: scope quite limited
- ▶ Carry overs: scope quite limited (resulted in „december-fever“)

Reform

- ▶ Drastic reduction of legally binding budget positions (>1000 to 70)
- ▶ Scope for redeployments substantially enlarged
- ▶ Carry overs became general standard (even for different spending purposes than originally budgeted)

Why Reform? Fiscal Fog re Results for Citizens

Traditional budgeting

- ▶ Allocation of public money dominant
- ▶ Got a problem? Need more money!
- ▶ No focus on results for citizens and value for money
- ▶ Gender equality insufficient in practice

Reform

- ▶ Performance addressed on each budget level by a limited number (focus on top priorities) of
 - ▶ objectives (outcomes)
 - ▶ indicators
 - ▶ outputs (measures, activities)
- ▶ Impact assessment for draft legal acts and draft major projects
- ▶ Regular evaluation

Why Reform? Fiscal Fog re True and Fair View

Traditional budgeting

Cash-perspective dominant:

- ▶ risks not depicted in cash in blind spot
- ▶ true and fair view not provided

Reform

- ▶ Annual budget: Two statements (cash flow, operating)
- ▶ Balance sheet included in financial statement
- ▶ Fiscal risks & burden depicted (provisions, adjustments of value, write offs...)
- ▶ True and fair view: IPSAS-oriented accrual accounting & budgeting
- ▶ Regional and local govts apply accruals as of 2019/2020 (ONE system for all levels of gov)

Pragmatic Application of Accounting Standards to Opening Balance Sheet

- ▶ Opening balance sheet as of 1 January 2013: Full disclosure of assets and liabilities while minimizing time, effort and expenses
- ▶ Austrian opening balance sheet regulation provides a number of simplifications to reduce administrative burden without considerably affecting quality of information
 - ▶ flate-rate and comparative parameters used
 - ▶ measurement alternatives permitted
 - ▶ subsidiaries: valued at equity
- ▶ Building accruals expertise within public staff
- ▶ Watchdogs established to foster adequate application of standards

Practical Benefits of Accruals: Provisions

Financial risks disclosed:

- ▶ 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 **entitlements 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.

Practical Benefits of Accruals: Adjustments of Value, Write Offs

Financial burden disclosed:

- ▶ Financial statement 2014 (central government):
 - ▶ - write offs of shares: - 1,25 bn €
 - ▶ - adjustments of value of tax receivables: - 4,45 bn €
- ▶ This burden is NOT disclosed in a „cash only“ accounting and budgeting system.

Practical Benefits of Accruals: Order Now, Pay Later

Financial burden disclosed:

- ▶ 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
- ▶ **Depreciation** of investments: according to useful life (operating statement), while cash flow statement focuses on year of pay
- ▶ Deficit of central government 2014: **cash flow** does **not reflect entire financial truth**
 - ▶ - 3,2 bn € according to cash flow statement
 - ▶ - 9,1 bn € according to operating statement

Practical Benefits of Accruals: Selling or Purchasing of Assets

Fiscal illusion 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**.

Practical Benefits of Accruals: Statement of Assets and Liabilities

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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	in EUR	in EUR	in EUR	in EUR
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

Targeted Communication to Stakeholders: Benefits of Accruals

- ▶ **Parliament:**
 - ▶ Solid basis for fiscal decision making (accruals, not just „cash only“)
 - ▶ additional expertise und support (parliamentary budget office)
 - ▶ targeted trainings for MoP and staff on how to use new levers
- ▶ **Court of Audit:** crucial watchdog to foster adequate application
- ▶ **Citizens, media, markets, academic community:** enhanced insight into public financial status
- ▶ **Line ministries:** Solid basis for decision-making (accruals, not just „cash only“)

How to Keep the Reform Going: Magnetic Field Towards Reform

- ▶ **Burn all bridges – make reform irreversible:**
 - ▶ True and fair view represents new constitutional budget principle
 - ▶ Clear signal to stakeholders: old world gone, better adapt in time
- ▶ **Use pressure of biting watchdogs:**
 - ▶ Parliament grills ministers if lack of ambition
 - ▶ Court of Audit reports to Parliament: high public attention
 - ▶ Fiscal Council uses improved info to lobby for fiscal sustainability
 - ▶ media, markets, civil society : use enhanced information to press for fiscal sustainability and high quality service delivery

How to Keep the Reform Going: Crucial Efforts AFTER Implementation

- ▶ **Never stop convincing stakeholders:**
 - ▶ provide practical examples how the reform creates added value to safeguard persistent support for reform
- ▶ **Continuous training of staff:**
 - ▶ training after as important as prior to implementation
- ▶ **Use adjustments to strengthen reform:**
 - ▶ no reform is perfect; the devil is in the details
 - ▶ minor adaptations might increase acceptance of reform substantially

How to Keep the Reform Going: Cultural Change Requires Time

- ▶ **Manage expectations**: no perfect application from the start, particularly true for accruals (lots of technicalities)
- ▶ Aim at continuous **annual progress** supported by watchdogs
- ▶ Reform requires more than new rules and laws – **change of mindset**
 - ▶ accruals: dealing with fiscal risks and burden accordingly and in due time

Achievements and Challenges: Overview

- ▶ We did it and it works in most instances.
- ▶ Lean and effective change management applied successfully.
- ▶ Watchdogs increasingly play their role.
- ▶ Deficiencies still exist and have to be tackled.

Accruals: Achievements and Challenges

Achievements

- ▶ financial risks and deficiencies re fiscal sustainability made visible in operating statement and balance sheet
- ▶ growing public attention re these risks (for instance: highly negative net assets on federal level as a key fiscal sustainability indicator)

Challenges

- ▶ Court of Audit regularly discloses: Adequate application of accruals needs enhancement in detail:
 - ▶ accounting errors due to IT-interfaces or concerning leases
 - ▶ valuation (for instance: present value of long-term receivables)
 - ▶ deficiencies in recognizing provisions (pending litigation)
- ▶ public awareness of financial risks still needs substantial improvement

Conclusion

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Budget reform

- ▶ is about **cultural change** towards **fiscal transparency & accountability**
 - ▶ knowing the current status of public finances is key to define future policy
 - ▶ depicting current status requires accruals based on international accounting standards
 - ▶ practical experience highlights the benefits of this approach
- ▶ requires a **broad consensus** to safeguard persistence of reform and
- ▶ **long breath and ongoing passion** of key stakeholders

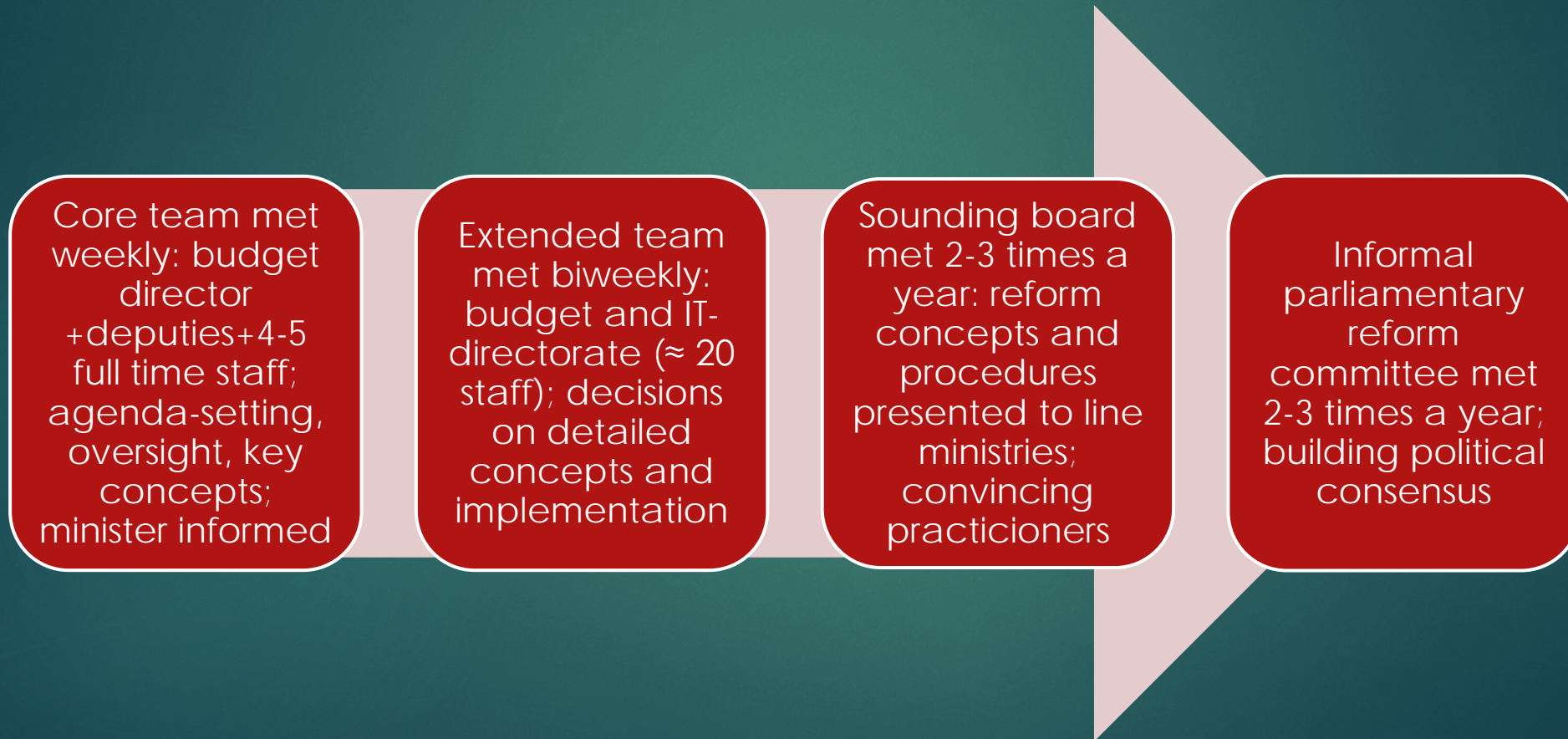
Annex

- ▶ Reform process architecture
- ▶ Examples of performance objectives and indicators
- ▶ Achievements and challenges of key reform elements

Reform Process Architecture 1

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Gerhard Steger, Beyond Traditional Budgeting, Los Angeles, 29 April 2016



Reform Process Architecture 2

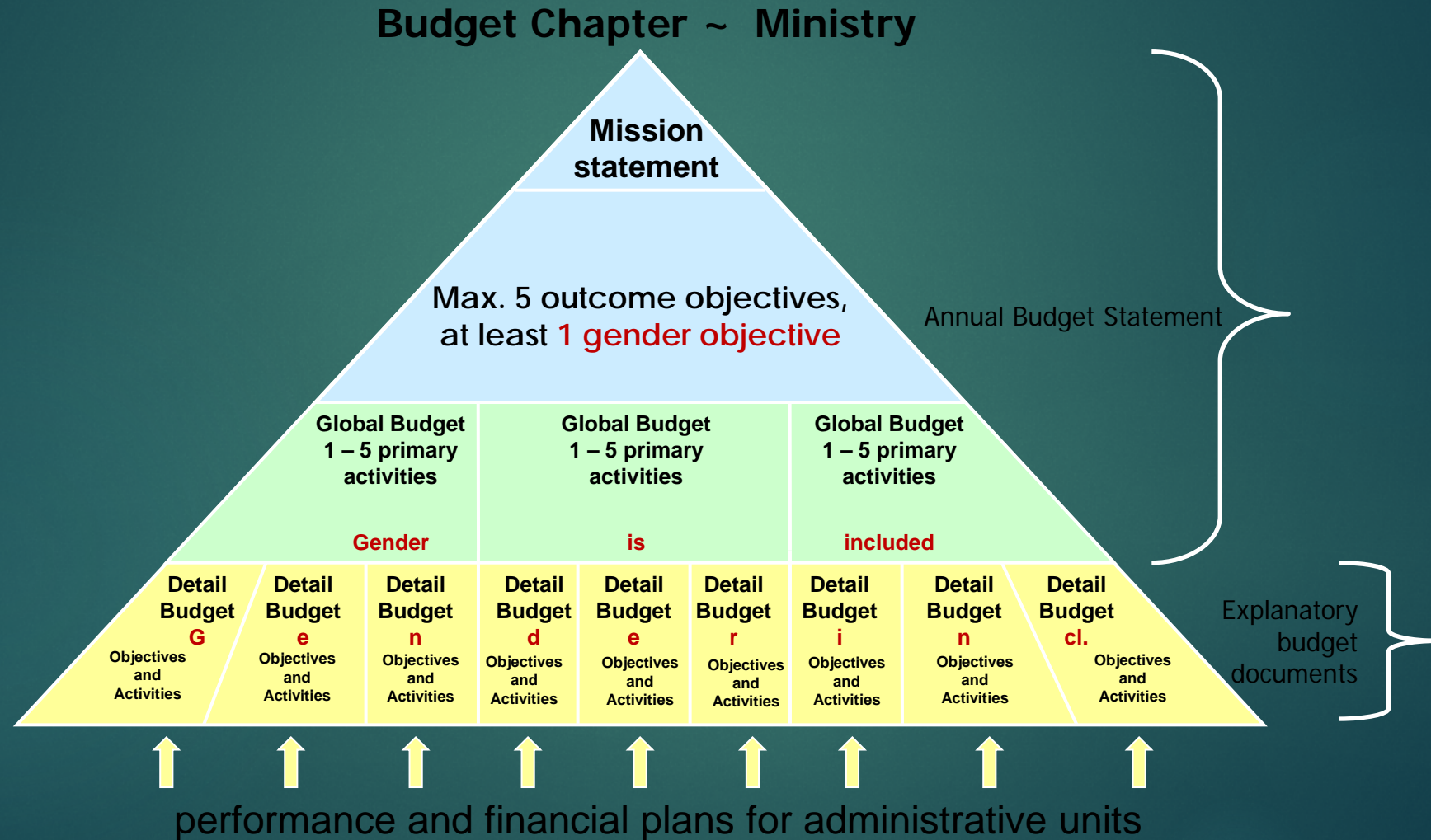
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2007: approval of constitution (budget principles) + new budget bill (MTEF)
2009/2013: legal validity

2009: approval of new budget bill (performance, accruals)
2013: legal validity

Practical Reform Results: Performance Pyramid



Gerhard Steger, Beyond Traditional Budgeting, Los Angeles, 29 April 2016

Practical Reform Results: Performance A/1

- ▶ **Outcome** (*budget 2016: Ministry of Education*): Increased level of education for pupils and re adult education
- ▶ **Why?** importance of well educated population for prosperous development; decisive factor for successfully participating in society, economy and culture
- ▶ **How?**
 - ▶ implementation of reforms of schools (for instance: expanding full-time schools) and of training teachers
 - ▶ use of digital media; participation in international education programs

Practical Reform Results: Performance A/2

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▶ Success?

- ▶ pupils successfully finishing Secondary 2: 2012: 88,4%, 2016: 89%, 2025: 93%
- ▶ pupils meeting or outperforming education standards: 2009: 42%, 2016: 45%, 2021: 47%
- ▶ participants in adult education: 2014: 18688, 2016: 26.000, 2020: 28.500
- ▶ trained teenagers after compulsory education: 2013: 93,6%, 2016: 93,8%, 2025: 96%

Practical Reform Results: Performance B/1

- ▶ **Outcome** (*budget 2016; Ministry of Social Affairs, Labour Market and Consumer Protection*): Safeguarding longterm care and support for relatives
- ▶ **Why?** needy persons and relatives should be enabled to live a self-determined life
- ▶ **How?**
 - ▶ quick decisions on care allowances
 - ▶ demand-oriented supply of care services
 - ▶ care allowances for caring relatives

Practical Reform Results: Performance B/2

▶ Success?

- ▶ average duration of decisions on care allowances: 2014: 54,2 days; 2016: < 60 days; 2018: < 60 days
- ▶ caring relatives receiving a care allowance: 2014: 9.200; 2016: 9.200; 2018: 9.200
- ▶ beneficiaries of 24hour-care allowance: 2014: 19.300; 2016: < 24.000; 2017: < 26.000

Practical Reform Results: Performance C/1

- ▶ **Outcome** (*budget 2016; Ministry of Health*): Equal health care services for women and men focusing on gender-specific preventive healthcare
- ▶ **Why?** tackle gender-specific diseases (for instance prostate cancer and breast cancer) and health risks
- ▶ **How?**
 - ▶ early detection programs
 - ▶ improving data base on gender specific health risks

Practical Reform Results: Performance C/2

▶ Success?

- ▶ women attending prophylactic health checks: 2013: 13,8%; 2016: > 14%; 2020: > 14%
- ▶ men attending prophylactic health checks: 2013: 12,9%; 2016: 13,1%; 2020: 13,3%
- ▶ women aged 45-70 screened re breast cancer: 2015: 48%; 2016: 49%; 2017: 50%

Practical Reform Results: Performance D

Outcome (*budget 2016: Ministry of Finance*): Enhancement of e-government services for citizens, enterprises and public administration

- ▶ **Why?** quicker services; paperless workflow greens the processes
- ▶ **How?** active support to use e-government applications
- ▶ **Success?**
 - ▶ number of users of e-tax application: 2014: 3,7 million; 2016: 3,9 million; 2017: 4 million
 - ▶ e-tax returns enterprises: 2014: 87%; 2016: 88%; 2017: 89%
 - ▶ e-tax returns private persons: 2014: 62%; 2016: 64%; 2017: 65%

Practical Reform Results: Performance E

Outcome (budget 2016: Ministry of Labour, Social Affairs and Consumer Protection):

Improving ability to work for elderly persons (50+)

- ▶ **Why?** know-how contributes to growth, productivity and affordability of social system
- ▶ **How?** support programs fostering re-integration into the labour market
- ▶ **Success?**
 - ▶ employment rate of elderly persons (50-64): 2014: 56,4%; 2016: $\geq 58\%$; 2017: $\geq 58,5\%$
 - ▶ unemployment rate of elderly persons (50+): 2014: 9,1%; 2016: $\leq 9,8\%$; 2017: $\leq 9,8\%$

Practical Reform Results: Performance F/1

- ▶ **Outcome** (*budget 2016: Ministry of Science*): Creation of a coordinated and competitive higher education area
- ▶ **Why?** coordination of scientific community important to be internationally competitive
- ▶ **How?**
 - ▶ further development of higher education planning
 - ▶ performance agreements with universities and other scientific institutions
 - ▶ fostering mobility of students and university teachers
 - ▶ cooperations between scientific institutions and private sector

Practical Reform Results: Performance F/2

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▶ Success?

- ▶ number of joint/double/multiple degree programs at universities: 2014: 122, 2016: 140, 2020: 167
- ▶ mobile (studies abroad) graduates: 2013: 25,1%, 2016: 27%, 2020: 27%
- ▶ number of approved projects in EU research framework programs: 2014: 89, 2016: 300, 2020: 700
- ▶ students per university teacher: 2014: 13,0, 2016: 13,1, 2020: 13,1
- ▶ scientific institutions offering joint use of large-scale research infrastructure: 2014: 26 of 39; 2016: 27 of 39; 2017: 28 of 40

Practical Reform Results: Performance G/1 (Gender)

Outcome (*budget 2016: Ministry of Families and Youth*):

Facilitating compatibility of job and family

- ▶ **Why?** to facilitate labour market participation
- ▶ **How?**
 - ▶ improved childcare facilities;
 - ▶ fathers to apply for childcare allowance

Practical Reform Results: Performance G/2 (Gender)

▶ Success?

- ▶ birth rate: 2014: 1,46, 2016: 1,46, 2017: 1,46
- ▶ percentage of fathers applying for childcare allowance: 2014: 17,03%, 2016: 18,02%, 2017: 18,03%
- ▶ percentage of children aged 0-3 years in childcare facilities: 2013: 25,1%, 2016: 30%, 2017: 33%
- ▶ employment rate of mothers with children below 15: 2014: 66,5%, 2016: 67%, 2017: 67,5%

Achievements and Challenges: MTEF

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Achievements

- ▶ mid-term planning as matter of course; calculation standards introduced
- ▶ ceilings obstacle to breach discipline (as more visible)
- ▶ MTEF usually accompanied by legal amendments of material laws to underpin MTEF figures
- ▶ line ministries use budget flexibility and spend smarter (build reserves)

Challenges

- ▶ foreseeable budgetary developments not always reflected appropriately
- ▶ even though MTEF amended annually
- ▶ MTEF figures not always sufficiently underpinned by necessary action
- ▶ recently: flexibility restricted in practice (limited use of reserves), credibility hampered

Achievements and Challenges: Performance

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Achievements

- ▶ increased Parliamentary focus on results instead just on „Who receives how much“
- ▶ audits deal with performance, put pressure on applying performance budgeting adequately
- ▶ NGOs and media sometimes pick up performance to discuss ambition and/or service delivery
- ▶ altogether: cultural shift towards performance orientation takes place

Challenges

- ▶ ambition and consistence of performance objectives, outputs and indicators to be upgraded
- ▶ performance objectives, outputs and indicators not coordinated sufficiently among ministries (areas of overlapping responsibilities)
- ▶ public awareness and discussion of performance issues still need substantial improvement
- ▶ altogether: cultural change requires further progress