

Budgeting and Accounting in Dutch Central Government

**Presentation for BundesKongress on Haushaltsmodernisierung,
June 15 2009**

**Prof. dr. Jan van Helden
University of Groningen, the Netherlands**

Outline

- **Contextual information: The Dutch governmental system with a focus on central government budgeting and accounting (das Niederländische Verwaltungssystem mit einem Fokus auf Haushaltsplanung und Rechnung auf der Reichsebene)**
- **First Issue: Accrual or Cash (Erstes Thema: Doppik oder Kameralistik)?**
 - **Pros and Cons of Accrual accounting in (Vorteile und Nachteile der Doppik im) pilot study at one of the ministries**
- **Second issue: Performance accountability (Zweites Thema: Leistungsorientierte Steuerung)**
 - **Experiences (Erfahrungen) with respect to balancing performance accountability and information overload**

Conclusions (Schlussfolgerungen)

Context: Dutch governmental system

- **Around 16.5 millions of inhabitants**
- **Three layers of government:**
 - **Central government**
 - **Provinces (12)**
 - **Municipalities (approx. 450)**
- **Government structure: Decentralised unitary state**
 - **Each province and municipality is autonomous within boundaries set by central government**
 - **So, obviously not a federal state like Germany**

Focus on central government

Dutch central government

Parliamentary system with two chambers (second chamber is most important, 150 full-time members elected every four years)

Kingdom, with Beatrix as current queen, so no president

Cabinet with 14 ministers and ministries

Number of fulltime equivalent employees around 125,000 (excluding schools, army)

45% of employees in core-ministries and 55% in so-called agencies

Budgetary and accounting system in central government

Format of central government budget

- Chapters for each of the ministries and funds (such as basic pension fund)**
- Within chapters articles/functions, in total around 200 (far less than in the past)**
- Administrative system for budgeting and accounting: commitment-cash-based and for agencies accrual-based**

Full-scope adoption of Accrual accounting in central government is a very controversial issue

(NB: provinces and municipalities already adopted accrual budgeting and accounting some twenty years ago, without much debate)

Intermezzo 1: Cash accounting

Cash accounting: registers cash outflows and cash inflows when they occur

Main concepts in cash accounting:

- Cash inflows = income = receipt
- Cash outflows = expenditure = payment

> Advantages:

- Objective
- Simple and low registration costs
- Easy to manipulate; quickening//postponing payments

> Disadvantages:

- Does not give insight into assets (what do we own?)
- Does not give insight into our net income (what did we earn?), because capital expenditures and receipts distort the cost-benefit picture of operations

Intermezzo 2: Accrual Accounting

accrual accounting: revenues and costs are accrued, i.e. it is recognised when they are earned and incurred respectively rather than when cash is received or paid (so costs and benefits of activities are matched)

accrual accounting results in a profit and loss account (operational statement) and a balance sheet

Advantages: provides information about net income in a particular period → assets/liabilities

Disadvantages:

complicated (understandability)

relatively high costs of registration

measuring use of assets (historical or current value?)

easy to manipulate (quicken or postponing invoices)

Intermezzo 3: Commitment accounting

Commitment accounting: orders issued (for example for new cars, or future consultancy) are registered as commitments, although a real obligation is absent

is used in combination with either cash or accrual accounting

Advantage

- Aimed at strengthening the budgetary function (what is left in the budget given the expenditures or expenses and the commitments?)

Disadvantages

- There is no legal obligation to pay
- Easy to manipulate (with under-spending inclusion of quasi commitments)

Bookkeeping and accounting

		accounting data (material)	
		cash data	data concerning resources consumption (accrual data)
Accounting style (book-keeping)	single-entry (cameralist)	traditional accounting concept of public administration	extended cameralist style of accounting
	double-entry (commercial style)	mordernized accounting concept of public administration	modern accounting concept (comparable to private business)

Issue: Accrual or Cash (Erstes Thema: Doppik oder Kameralis

History of Accrual Accounting (AAC)

- **2003-2004**: implementation for core-ministries was seriously considered but abolished
- **2007-2008**: pilot with AAC for ministry of Agriculture
- **2008-2009**: Conclusions →
 - AAC leads to better information, but most of its benefits can also be realized under the current system
 - Implementation costs of AAC are high
 - Therefore, no full-scope adoption of AAC

Pros of Accrual accounting in (Vorteile der Doppik im) Pilot study

Better link between subsidies and performances (Eine bessere Verbindung zwischen Subventionen und Leistungen)

Better insight into investment costs (Information über Abschreibungen statt Investitionen)

Provides insight into full costs of outputs and policy making (Gibt Einsicht in Leistungskosten)

Capital charge on investments (Zinsen der Investitionen werden deutlich)

Provides information on equity (Umfang des Eigenkapitals wird transparent)

Disadvantages of Accrual accounting in (Nachteile der Doppik im) Pilot study

Design and maintenance of new administrative systems are expensive (Konzeption und Unterhalt der neuen Systeme sind teuer)

Creates valuation problems especially related to fixed assets (Bewertung des Anlagevermögens ist kompliziert)

IPSAS is too general for direct application (IPSAS ist zu allgemein für den praktischen Gebrauch)

Lack of sufficient knowledge of employees (Mitarbeiter haben nicht vollständige Kompetenzen)

Doubts about understandability of AAC information (Es gibt Zweifel, ob Benutzer die neue Information richtig verstehen können)

Additional resources needed for EMU requirements (Kameralistische Anforderungen für EMU)

Conclusions (Konklusionen aus dem ersten Thema)

ash or Accrual seems to be a philosophical debate, because the facts do not convince enough (Es ist eine Art metaphysische Diskussion)

- Pros of Accruals Accounting are obvious but they come at a cost (Vorteile der Doppik sind deutlich, aber die Übergang ist teuer)
- Benefits of Accruals accounting can be realized by extending cash accounting (Die Vorteile der Doppik sind auch zu realisieren mit der erweiterten Kameralistik)
- No full-scope adoption of Accruals accounting (Keine vollständige Anwendung der Doppik)

Second issue: Performance accountability (Zweites Thema: Leistungsorientierte Steuerung)

Traditionally budgetary and accounting information was mainly financially oriented (In der Vergangenheit war Information in Planung und Rechnung nur ausgabeorientiert)

The link between resources and achievements remained unaddressed

(Verbindung zwischen Geld und Ziele blieb undeutlich)

Around 2000 Dutch central government started its project 'From budget to policy accountability' (Von Leistungsplanung zur Leistungssteuerung)

Three W-questions (3 W-Fragen) had to be answered:

- What do we want to achieve (Welche Ziele)?
- What are we going to do (Welche Aktivitäten)?

Experiences (Erfahrungen)

Since long we have had our budget day in the Netherlands (the thuesday in September) and since a couple of years we have had accountability day (the third Wednesday in May)

Neu ist Tag der Rechnungslegung im Mai, wir hatten schon Tag Budget-Präsentation im September)

After some years of experience (Erfahrungen) we can conclude: There is a tremendous information overload: 2,500 pages, 7 kilo per submitted to the members of parliament (Viel zuviel Papier für die Abgeordneten)

There is discontent on the part of parliament due to a lack of commitment of ministers and employees (Abgeordnete sind unzufrieden, weil Minister und Beamten sich zu wenig engagieren)

Further experiences (Weitere Erfahrungen)

The National Audit Office (Reichsrechnungshof) concluded about the 2008 accounts: Information increased but became less useful (Informationswuchs, aber auch Abnahme der Nützlichkeit):

- One third of the goals lack a link with activities (Ung. 33%: keine Information über Aktivitäten, die zu Zielen beitragen können)
- With the other two third of the goals there was a link with activities but no proof that these activities contributed to goal achievement (Ung. 67%: Kein Beweis, dass Aktivitäten zu Zielen beigetragen

How to proceed (Wie geht es weiter)?

The Cabinet seems to prefer to focus on achievements of main Cabinet goals (Konzentrieren auf Prioritäten des Ministerrats)

Some public administration scientists advised to organize debates with all kinds of stakeholders about a selected number of hot issues

Diskutieren mit wichtigen Partnern über eine konkrete Themen-Auswahl)

Conclusions (Schlussfolgerungen)

Accrual or Cash (Doppik oder Kameralistik)?

Accrual accounting seems to have more Pros than Cons (Mehr Vorteile als Nachteile der Doppik)

It may just be a matter of time before the debate is settled (Es kostet nur noch einige Zeit, bevor man sich entscheidet)

Otherwise, the debate will continue (Oder das Metaphysische wird bestehen bleiben)

Performance accountability (Leistungsorientierte Steuerung)

Experiences in balancing performance accountability and information overload point to a selected use of the most important information (Erfahrungen weisen darauf hin, dass man sich in der Zukunft beschränken muss auf die wichtigsten Informationen)