

## EURORAI Workshop in Bad Homburg v. d. Höhe

The introduction of accrual accounting and new public management in the Hessian state administration: Lessons learnt and outlook

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# Overview

## 1) Hesse – the objective and the path

- Modernising the budget and accounting system in Hesse

## 2) Hesse – current status

- Consolidated accounts for the Federal State of Hesse on 31 December 2009
- Accounting and valuation methods for selected balance sheet items

## 3) Summary

- Lessons learnt and outlook

*Modernising the budget and accounting system*

## Targets and development of the NPM

NPM Project	Key processes for achieving the objectives
Improving the effectiveness of task completion	Managing results through objectives and products
Improving citizen and client orientation	Decentralising decision making competences and enhancing accountability by combining technical and resources responsibilities
Raising efficiency	Creating transparency using a closed commercial accounting system

*Modernising the budget and accounting system*

## Basic concept

Transition from **input control**  
(budgeting for specific expenses)  
**to output control**

(Remuneration for the provision of specific administrative services)



**Controlling** the provision of these **services/products**  
through **service arrangements** (contracts, target agreements)



Definition of products and services (quantitative and qualitative)



Commercial accounting (accrual) + cost and activity accounting



Controlling

Combining technical and resources responsibilities, at the local level

*Modernising the budget and accounting system*

# Why use accrual accounting?

## Cash-based accounting

- Historical tradition
- Basically well-suited for securing cash liquidity (payment flows)
  - Does not depict any asset erosion
  - No evidence for future liabilities that have already been generated
- No records for outsourced units



## Accrual accounting

- Tried-and-tested system
- Depiction of period-related resource consumption
- A full, consolidated picture of the situation related to assets, finances and profit for the whole state administration
  - ⇒ **Transparency**
- Consolidated accounts for the Federal State of Hesse
  - Annual financial statement (capital account, earnings account, financial account and annexes)
  - Situation report
  - ⇒ Reliable body of data for administrative activities and higher-level political decision making (sustainable financial policy/ intergenerational fairness) (⇒ "the handbrake on debt")
  - ⇒ Rendering of accounts to the state parliament as part of the annual budget process

*Modernising the budget and accounting system*

## The basis: accrual accounting as a legal framework for Hesse

- Section 71a of the State Financial Regulations (LHO ) in connection with **Sections 238 ff. of the German Commercial Code (HGB)** on the principles of proper accounting; the Commercial Code is a proven and generally recognised regulatory framework in Germany for an accrual accounting system
- Statements by the **Institute of Public Auditors in Germany** (Institut der Wirtschaftsprüfer - IDW), in particular for the rendering of accounts by the public administration according to principles of double-entry bookkeeping (IDW ERS ÖFA 1)
- Clarification of basic **conceptual questions** under sustained coordination with the Court of Audit of Hesse
- Since *1 January 2010* it has also been possible under the German law on budgetary principles (**HGrG**) to change the state accounting system to accrual accounting (Sections 1a, 7a HGrG).



Consolidated accounts for the Federal State of Hesse on 31/12/2009

**Balance in brief**for details see  
annual report, p. 61 ff.

Assets (million €)	31/12	1/1	Liabilities (million €)	31/12	1/1
<b>A. Fixed assets</b>	<b>24,115</b>	<b>23,741</b>	<b>A. Special items</b>	<b>220</b>	<b>180</b>
of which:					
<i>property assets</i>	<i>5,761</i>	<i>5,708</i>	<b>B. Provisions</b>	<b>52,069</b>	<b>46,554</b>
<i>art and museum collections</i>	<i>5,106</i>	<i>5,105</i>	of which:		
<i>infrastructure assets</i>	<i>4,086</i>	<i>4,117</i>	<i>for pensions</i>	<i>40,112</i>	<i>38,360</i>
<i>forest assets</i>	<i>2,369</i>	<i>2,366</i>	<i>for subsidies</i>	<i>4,480</i>	<i>4,956</i>
<i>investment assets</i>	<i>1,258</i>	<i>1,269</i>	<i>for tax refunds</i>	<i>3,626</i>	<i>1,050</i>
<b>B. Liquid assets</b>	<b>11,140</b>	<b>6,562</b>	<b>C. Commitments</b>	<b>48,142</b>	<b>41,754</b>
of which:			of which:		
<i>demands for taxes from taxpayers</i>	<i>6,515</i>	<i>3,406</i>	<i>owed to the credit market</i>	<i>34,827</i>	<i>32,118</i>
<i>demands from regional authorities</i>	<i>2,455</i>	<i>1,648</i>	<i>for taxes from taxpayers</i>	<i>3,501</i>	<i>2,012</i>
<b>C. Active accrued and deferred items</b>	<b>316</b>	<b>319</b>	<i>Owed to regional authorities</i>	<i>6,084</i>	<i>4,189</i>
<b>D. Shortfall not covered by own capital</b>	<b>64,870</b>	<b>57,879</b>	<b>D. Passive accrued and deferred items</b>	<b>11</b>	<b>14</b>
<b>Balance</b>	<b>100,443</b>	<b>88,502</b>	<b>Balance</b>	<b>100,443</b>	<b>88,502</b>

*Consolidated accounts for the Federal State of Hesse on 31/12/2009*

## **Fixed assets (EUR 24,115 million)**

### Property assets

- Fair values determined on 1 January 2007, which count as acquisition or production costs

### Art objects

- Accretion of older collection (acquired prior to 1 January 1999) within a value group to be formed, with conservative estimate of fair value; no depreciation planned in subsequent accounts

### Infrastructure assets (roads)

- New assessment using **fair values for 1 January 2007**; since 1 January 2007 actual production costs have been calculated

### Hessian state forest

- Value calculation on **1 January 2004** taking forest-specific factors into account (age, tree species composition and profitability), as well as the categorisation as timber stands, secondary forest areas and nature conservation areas.



*Consolidated accounts for the Federal State of Hesse on 31/12/2009*

## Accounts receivable from taxes

(EUR 6,515 million)

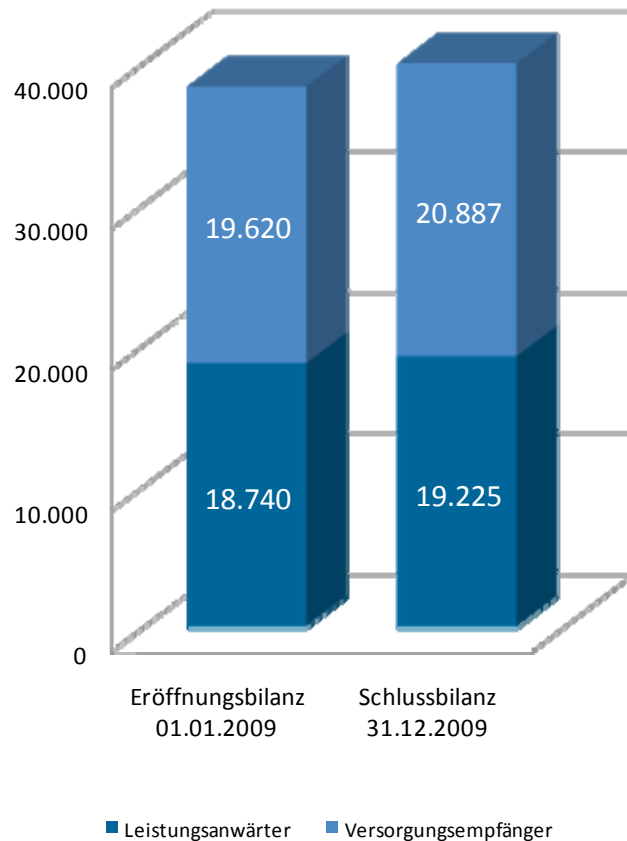


- **Activation of chargeable taxes** following the appropriate manifestation, i.e.
  - Tax declarations: always after receipt of tax returns
  - Advance payments: following the relevant due dates
  - Assessments: followed by processing and delivery of the tax claim.
- **Remaining risks**
  - Conservative estimates of chargeable taxes (adjustments) and
  - Creation of reserves (e.g. to meet obligations for tax refunds)
- **Value clarification**
  - Submission of VAT, income tax and capital gains tax returns: 31 January

*Consolidated accounts for the Federal State of Hesse on 31/12/2009*

## Accrued liabilities for pensions and subsidies

(EUR 44,592 million)



### Duty to specify provisions

- Detailed identification for applicants for services and recipients of state benefits
- No entitlement to claims that arose before 1 January 1987 (Art. 28 EGHGB)

### Parameters

- Actuarial calculation using the partial value method
- Actuarial interest: 4.5 %
- Biometric bases for calculation (2005 G Guideline Tables by Prof. Heubeck)
- Individual data assessed for applicants for services and recipients of state benefits and their families (e.g. placement in the civil service, previous appointments and interruptions, part-time employment)

*Summary*

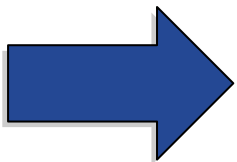
## Lessons learnt (I)

- Costly and time-consuming conversion of a whole federal state with around 800 government offices, to the use of a commercial accounting system (approx. 10 years, starting in 2001)
- First state-wide stocktaking exercise to assess the state's asset situation, with an opening balance of accounts (1 January 2009) taking into account the principles of proper accounting in commercial law
  - Wide-ranging activities related to **inventory and evaluation**
  - Accommodating the **distinctive features** of public administration (e.g. forests, property, infrastructural assets, art collections, pensions)
- **Auditing** by the Court of Audit / external auditor

*Summary*

## Lessons learnt (II)

- First consolidated account on 31 December 2009, with evidence for the consumption of resources measured over the whole year (approx. EUR 6.9 billion)
- Proof of explicit debts (binding) of EUR 48 billion, as well as implicit debts (accrued liabilities) of approx. EUR 52 billion.
- Commercial conservatism with realization and imparity principle as the basis for a sustainable and *intergenerationally fair* financial policy



Conclusion:

Commercial law can also be applied in the public sector

*Summary*

## Outlook

- Some qualitative shortcomings remain (qualifications to the **auditors' report**)
  - Documentation of the inventory/evaluation of artworks and collections
- Federal German/state relations:
  - Cooperation with the committee for the **standardization** of state accounting (Section 7a (2) HGrG)
  - Will **other federal states** (besides Hesse, Hamburg and Bremen) introduce accrual accounting?
- Conversion of the **budget system** and public management based on commercial accounting

**Thank you for your attention!**

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