

PUMA meeting in Paris on 6 and 7 November 2001

Forum on Modernising Government

Presentation of a German modernisation project illustrated by the introduction of accrual accounting (KLR) at the Press and Information Office of the Federal Government (BPA)

I. Programme “Modern State - Modern Administration“

- With its programme “Modern State – Modern Administration“, on 1 December 1999 the Federal Government created the basis for a comprehensive modernisation of the state and its administration under the guiding model: The state as an enabler and catalyst.
- With a view to implementing this programme, 15 guiding projects have been selected against which the realisation of the above guiding model will be measured. The guiding project is supplemented by another 23 projects specifying the Federal Government's modernisation programme in greater depth.
- One reform area of this programme encompasses an efficient, cost-effective and transparent administration. With this endeavour, the Federal Government attempts to achieve an administration which renders better performance at lower cost. This reform area also includes the following projects:
 - Introduction of modern management in the federal administration,
 - Testing and further development of standard accrual accounting (cost/results accounting).

The modules of “modern management“ are:

- The guiding model
- Agreements on targets
- Accrual accounting
- Controlling
- Budgeting
- Creativity management

- The Press Office of the Federal Government was one of the seven pilot authorities when accrual accounting was introduced.

II. Development of accrual accounting in the federal administration

- **In the mid-nineties**, the federal administration started to test operational steering instruments. These primarily include accrual accounting as well as controlling.
- By a cabinet resolution of **7 February 1996**, the Federal Ministry of Finance was entrusted with the task of developing an accrual accounting standard for the federal administration.
- In **1997** the Federal Ministry of Finance developed the Standard Manual on Accrual Accounting which was subsequently tested in pilot projects; the **Press Office of the Federal Government** was one of the first authorities to test it.
- The standard defines specific targets as well as general information on their practical introduction, so as to maintain some conformity and coherence of accrual accounting systems. A certain degree of discretion however remains with the Ministries enabling them to implement their own ideas.
- The Budget Law Further Development Act, which entered into force on **1 January 1998**, obliges all authorities of the federal administration to introduce some form of accrual accounting “in appropriate fields“ (cf. Section 7 (3) of the Federal Budget Code).
- **Since 1 January 1998**, accrual accounting has been in effective operation in the Press and Information Office of the Federal Government.
- Experience made so far shows that the standard has proven appropriate. Accrual accounting has been widely accepted within the federal administration.
- In 1996, accrual accounting was applied to solely 0.87 % of all staff members within the federal administration. Today, this figure has been increased to 89%.
- In the Federal Government Bill of **2001**, a concept has been outlined for a product-oriented budget presentation for the first time. This concept has been incorporated as annex to the Federal Budget of **2001**.
- The intention is to supplement this standard by a controlling system based on accrual accounting. The standard accrual accounting constitutes “the key element of future controlling“.

III. Why introduce accrual accounting anyway?

- To date, the task of public accounting has been limited to the provision of necessary funds for the implementation of political decisions.
- The accounting system of cameralistics almost exclusively fulfills a control function and aims at ensuring that budget estimates are complied with.
- Cameralistics presents financial results and hence pursues an exclusively external accounting aim (statements of accounts). This system is based on inputs and solely enables its users to manage financial resources.
- By contrast, output management also takes account of the desired performance (output) and its results (outcome) to be achieved by administrative action.
- In order to manage cost-effectiveness, private businesses use a closed accounting regime with the elements of profit and loss accounts, gross saving and earnings accounts, financial accounts, and **accrual accounting**. Solely an appropriate accounting regime (accrual accounting) is in a position to open up greater rooms for manoeuvre by rendering the budget more flexible and by requiring greater transparency (including the transparency of profit and loss accounts and gross saving and investment accounts).

Accrual accounting as an instrument for the internal management of cost-effectiveness

- Accrual accounting provides information enabling its users to better manage the achievement of goals. Data obtained by accrual accounting must be interpreted by a controlling regime and be prepared for steering purposes.
- Accrual accounting creates financial transparency.
- It enables to establish a decentral responsibility for resources and raises the awareness of costs.
- The target group of information produced by accrual accounting are those who can exert an influence on the level (amounts) and structure of costs.

What does accrual accounting involve?

- It provides information on what costs (cost types) are incurred where (cost centres) for what products/services (cost objectives).
- Accrual accounting therefore presents the costs of the production of goods and services.

- Accrual accounting is also intended to render transparent the performance of an administration and take account of the quality aspect. It serves to evaluate the efficiency by considering the relationship between outputs and inputs.
- The quality of the output as well as of effectiveness (outcome) can be measured indirectly with the help of indicators.

IV. Experience of accrual accounting at the Press Office of the Federal Government (BPA)

Development

- **In 1996** the Press Office of the Federal Government started to introduce various elements of new steering instruments.
- The pilot project for the introduction of accrual accounting has been funded by the Federal Ministry of Finance since **1996**.
- Accrual accounting has been introduced throughout the Press Office and is based on the principles of the standard accrual accounting regime of the federal administration.
- Since **1998**, accounts have been processed under the principles of accrual accounting.
- **In 1998**, the Press Office of the Federal Government completed the definition of products. In this process, the Press Office pooled the products into product areas (eg public relations), product groups (e.g. print media) and product sub-groups (e.g. brochures).
- Since **1999**, reliable data have been provided by accrual accounting.
- Since the **second half of 1999**, a controlling system has been set up in parallel. For this purpose a new planning process which is also based on products has been developed.
- **Since 2000** the planning of operational financial resources has been exclusively performed on the basis of products.
- As from **2002** the intention is to operate both the cameralistic and the product-oriented budgeting procedure for the financial year 2003 in parallel.

Experience of the early stages of accrual accounting at the Press Office of the Federal Government

a) Reporting

- Quarterly reports enable users to set a new course during the financial year already - steering function -
 - a) Efficiency gains by cost and performance comparisons
 - b) Reduction of tasks as a consequence of disproportionate cost-effect relations

b) Budgeting

- Far-reaching budgeting: Reduction of budget items
- Establishment of budgets for Directors General
- Reduction of bureaucracy (red tape): no excessive expenditure