



Ministry of Finance

Accrual Accounting

The Dutch perspective

10th Annual OECD Accruals Symposium
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Ministry of Finance

The Dutch Approach

- Introduction
- Extensive Research
- Pilot Project
- International research
- Conclusion
- Final Remarks

8 March 2010

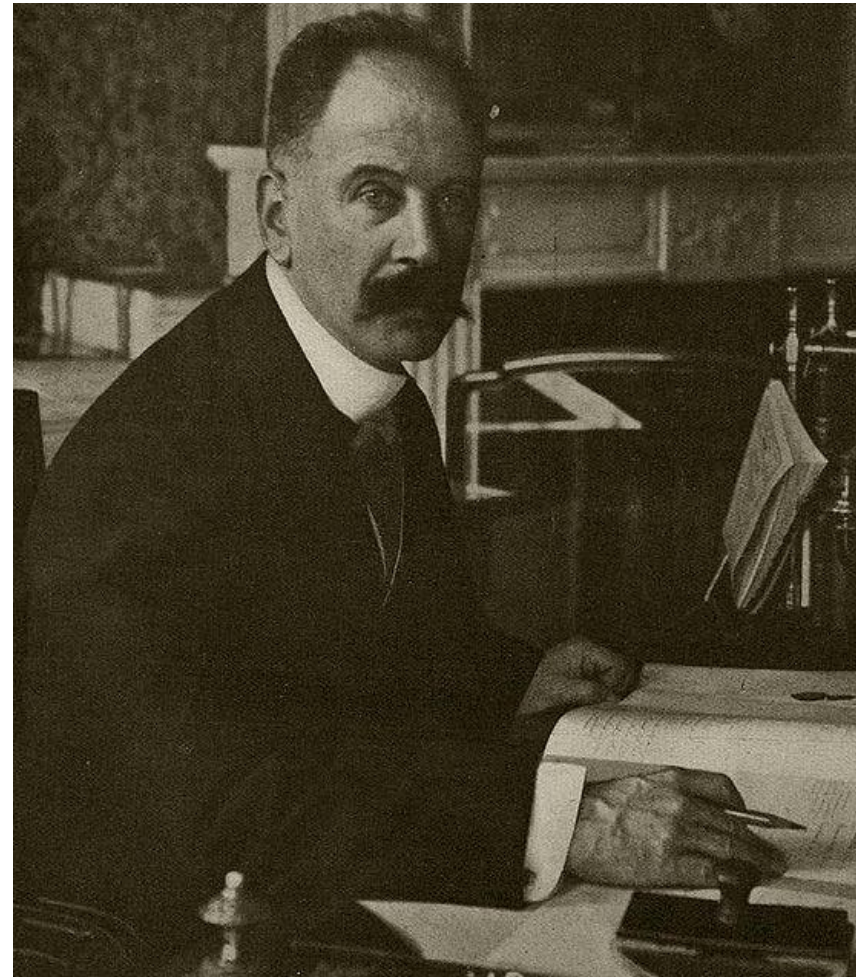


Introduction

Accrual accounting has a long history in The Netherlands...

started in 1912

- In 1912 the first budget law based on accrual accounting was proposed by the Minister of Finance Anton van Gijn.
- In 1927 a new budget law was adopted by the Parliament: cash-system prevailed.





Introduction (2)

Since 1912...

Mixed system (start 1992)

- Businesslike parts of government
 - › agencies – *42 agencies account for 60-70% of central government (1992)*
 - › non-departmental public bodies >400
 - › But all programs: cash
- Local governments (accruals)
 - › Investments





Introduction (3)

Cash and Commitments for...

- Ministries
 - » Multi-Year expenditure framework based on cash/commitments
 - » Multi-Year estimates for all budget lines

Added by...

complementary (accrual) instruments

- > *state balance sheet*
- > *cost benefit analyses*
- > *Long term financial projections (2040)*
- > *carry over facility of 1%*





Extensive Research

Tools used in Decision Making



landbouw, natuur en
voedselkwaliteit

- Pilot project at the Ministry of Agriculture
 - › At the request of the Parliament (2004; one member of parliament)
 - › Annual Report 2007
- International Comparative Research
 - At the request of the Parliament (2009)
 - » International experiences accrual accounting and budgeting
 - » Costs of government wide implementation
 - » Differences in reporting to the EU



Findings of the Pilot Project (1)

It is necessary to improve the provision of information to the parliament.

Some increased insight in financial information

Accrual accounting can lead to increased financial understanding of line ministries

- › Cost prices (of subsidies/additional costs of e.c. subsidies)
- › Subsidies (to farmers/greenhouses)

but in a governmental policy environment the added value of accruals for line ministries is not visible.

» 3-5% investments by line departments

and considering that...



Findings of the Pilot Project (2)

The implementation of accrual accounting is a costly and time consuming process

- Financial information system - involves costly investments.
- Valuation issues - labour-intensive and complex process.
- Expertise - external expertise.
- Capital charge
- IPSAS (high theoretical approach: could not be implemented without a translation to ministry of agriculture)

Cash accounting is needed to provide the necessary information on:

- the EMU-balance
- To have a direct link between fiscal rule and the expenditure decisions



Findings of the Pilot Project (3)

We believe the provision of information to the parliament can easily be improved without implementing accruals for line ministries.

- Policy information
 - › Improved quality of policy information in budgets and annual reports.
 - » *along main policy lines (overviews: total subsidies for children; housing)*
- Financial and Non-financial Information
 - › Improved quality of cost-benefit analyses.
 - » *a second opinion of an independent party*
 - › Improved financial information regarding major operations.
 - » *providing additional accrual accounting information on the realisation*



International Comparative Research



Australia



Germany



Switzerland



France



New Zealand



United Kingdom



Denmark



Austria



Lithuania



Canada



United States



Norway



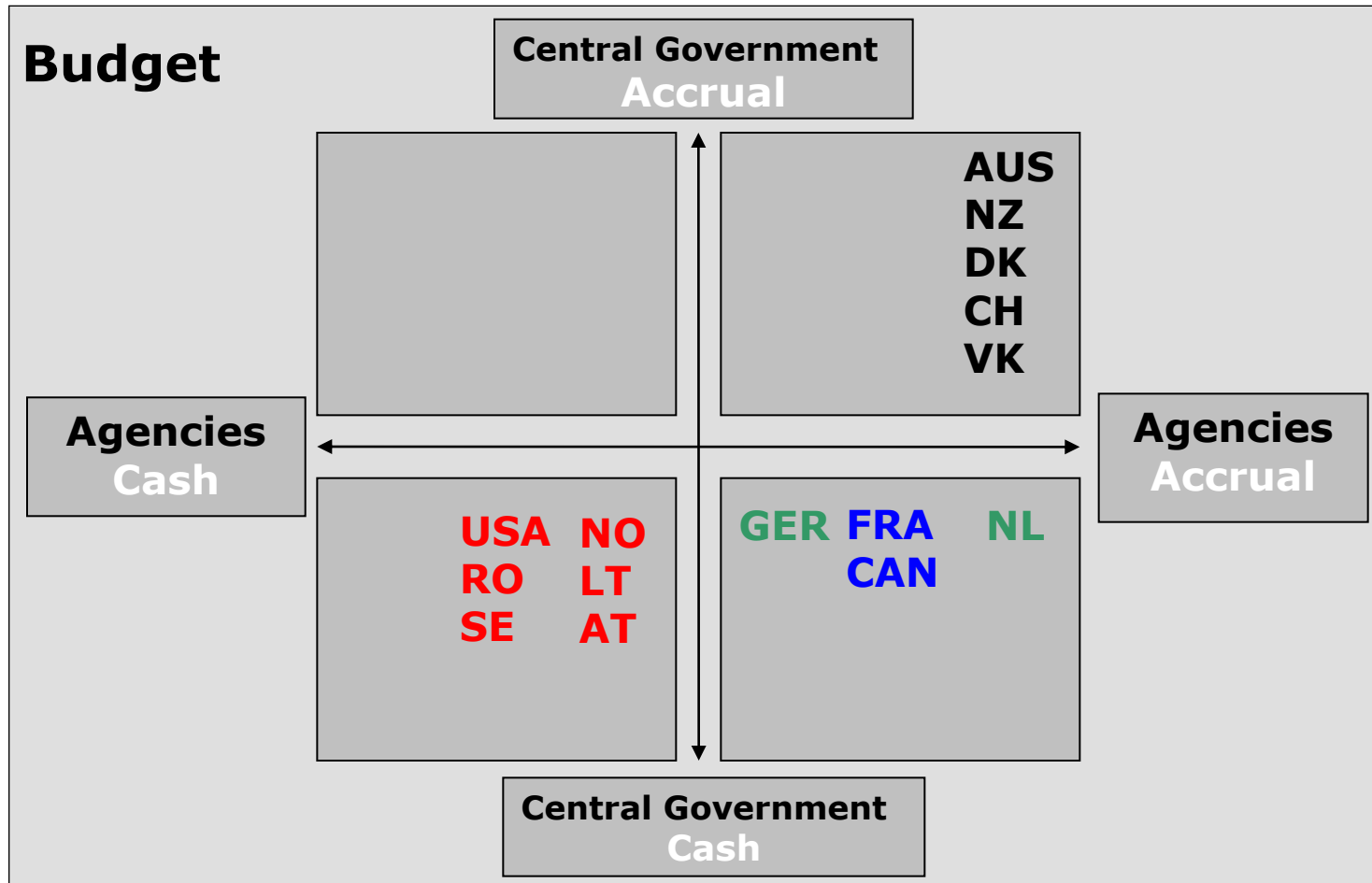
Sweden



Romania

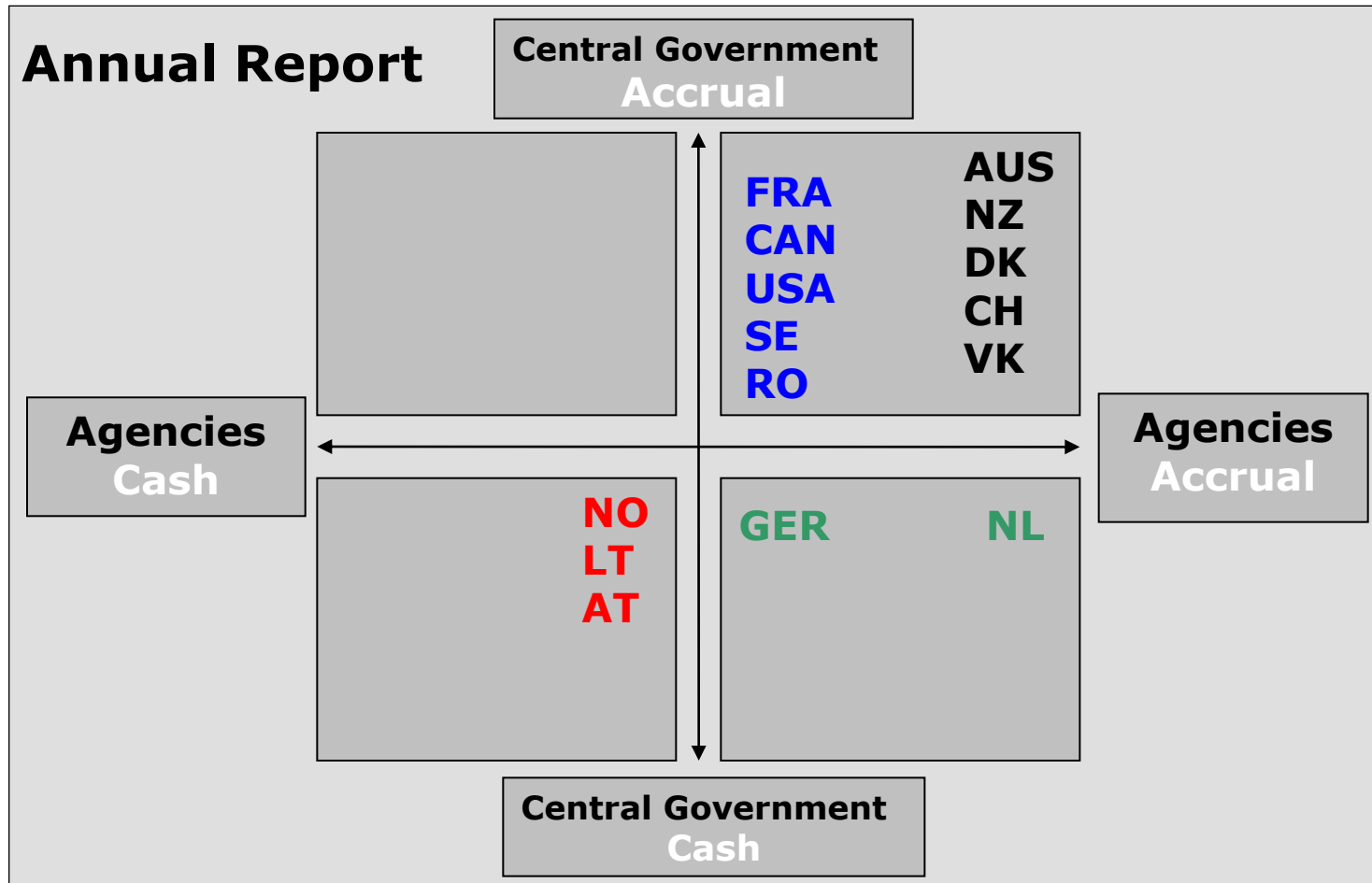


International Comparative Research (3)





International Comparative Research (2)





Preliminary findings international research

Advantages and Disadvantages of Accrual Accounting

Advantages	Disadvantages
Insight in financial position	More complex
Insight in costs	Added value relatively small
Harmonization of reporting	Less Accessibility



Preliminary findings international research (2)

Implementation process difficult

Bottleneck	Problem	Countries
Valuing properties and liabilities	Big problem at start, time consuming	All countries
Financial Information Systems	Development of system (many versions)	France, Australia, United Kingdom
Culture	Culture change, explaining need accrual system	Specifically mentioned by Canada and France
Expertise	Too many legal specialists, more accountants needed and experienced budget people	All countries



Preliminary findings international research (3)

Parliament

Felt a Loss of Control (due to complexity)

Major (political) decisions not accrual based



Preliminary findings (4)

Cost Paradox

Cost of accrual implementation not systematically tabulated

Even though desire of accruals is to...

Increase insights in costs of policies





Dutch Implementation Business Case

Costs of government wide accrual implementation

Incidental costs	Lower limit	Upper limit
<i>IT-systems</i>	€ 30 million	€ 71 million
<i>Personnel</i>	€ 16 million	€ 25 million
<i>Valuation assets</i>	€ 11 million	€ 22 million
<i>Change management</i>	€ 72 million	€ 143 million
<i>total implementation</i>	€ 129 million	€ 261 million
Structural costs		
<i>Personnel</i>	€ 6 million	€ 14 million
<i>Maintenance IT-systems</i>	€ 2 million	€ 4 million
<i>Valuation assets</i>	€ 5 million	€ 11 million
<i>total structural per year</i>	€ 13 million	€ 28 million



Conclusion

Accrual accounting and budgeting is particularly suited for a businesslike environment.

- In cases where products and services can be measured
- Most policy objectives of the government's policy are not measurable products and services.

Executive agencies, on the other hand, operate more in line with businesslike principles.





Conclusion (2)

Continuation of present policy

*This implies the introduction of accrual accounting combined with an output-oriented model **whenever efficient ...***

and..

continuing to enhance cash and commitment accounting to improve the provision of information to the parliament.





Final Remarks

The choice of an accounting system is a ***technical issue***

more important is the political side of accounting systems...

- › Authorization and control by the parliament

Or in other words to enable the parliament to follow the euro.

