



BMF

FEDERAL MINISTRY
OF FINANCE

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Getting the starting point right

Experiences from Austria on the first time adoption of an Opening Balancesheet (OBS)

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Agenda

- Preconditions
- OBS Project management
- Challenges faced
- Lessons learned
- Outlook on EPSAS first time adoption

Preconditions

- **Data availability & Data quality**
 - Assets (Land, Buildings), Companies, Inventories
 - Consistent, Complete, Computable

 - **Organizational Preconditions**
 - Recognition and Measurement Methodology
 - Training programs, skilled staff
- = Determine Implementation (Transition) Period and OBS quality**

OBS project management

- **Central, small, fulltime project team**
 - AT: 3-5 FTEs, directly responsible to budget director
 - Key account to all line ministries and implementation stakeholders (CoA, Parliament, political level)

- **Tasks of the OBS unit**
 - Quality Management (Data and Methodology)
 - Guidelines and Practical Information

Challenges faced

- Recognition and Valuation of:
 - >9.3 bn sqm Land (in Austria and abroad)
 - Mainly forests and rocks/waste land, gardens
 - Roads, railways, port facilities
 - > 6.400 buildings (solid constructions, garages, warehouses, sheds, stables, etc.)
 - Cultural heritage assets (historical buildings)
- Keeping up the motivation

Lessons learnt

- Develop precise and undisputed methods for recognition and valuation
- Take stakeholders on board (CoA, parliament, Line Ministries, political level)
- Use thresholds and simplified methods (Materiality!)
- Clear timetable (no evergreen activity)
- Create Ownership

Outlook on EPSAS

- Clear and detailed guidance is needed for OBS
- Some options might be needed to different starting points/first time adoption capacities of MS
- Create ownership in MS for OBS

Thank you for your Attention!

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More information on the Austrian Opening Balance
sheet:

<https://english.bmf.gv.at/budget-economic-policy/opening-statement-of-financial-position.html>



Hamburg: Experience with first time adoption

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First time adoption:

- Cash based budgeting and accounting system until 2014
- Accrual started as a parallel system: Opening balance 1.1.2006 based on simplified German accounting principles
- Reform of budget law and fiscal rules based on accrual principles with effect from 1.1.2015
- Traditional cash based budgeting and accounting system turned off end of 2014

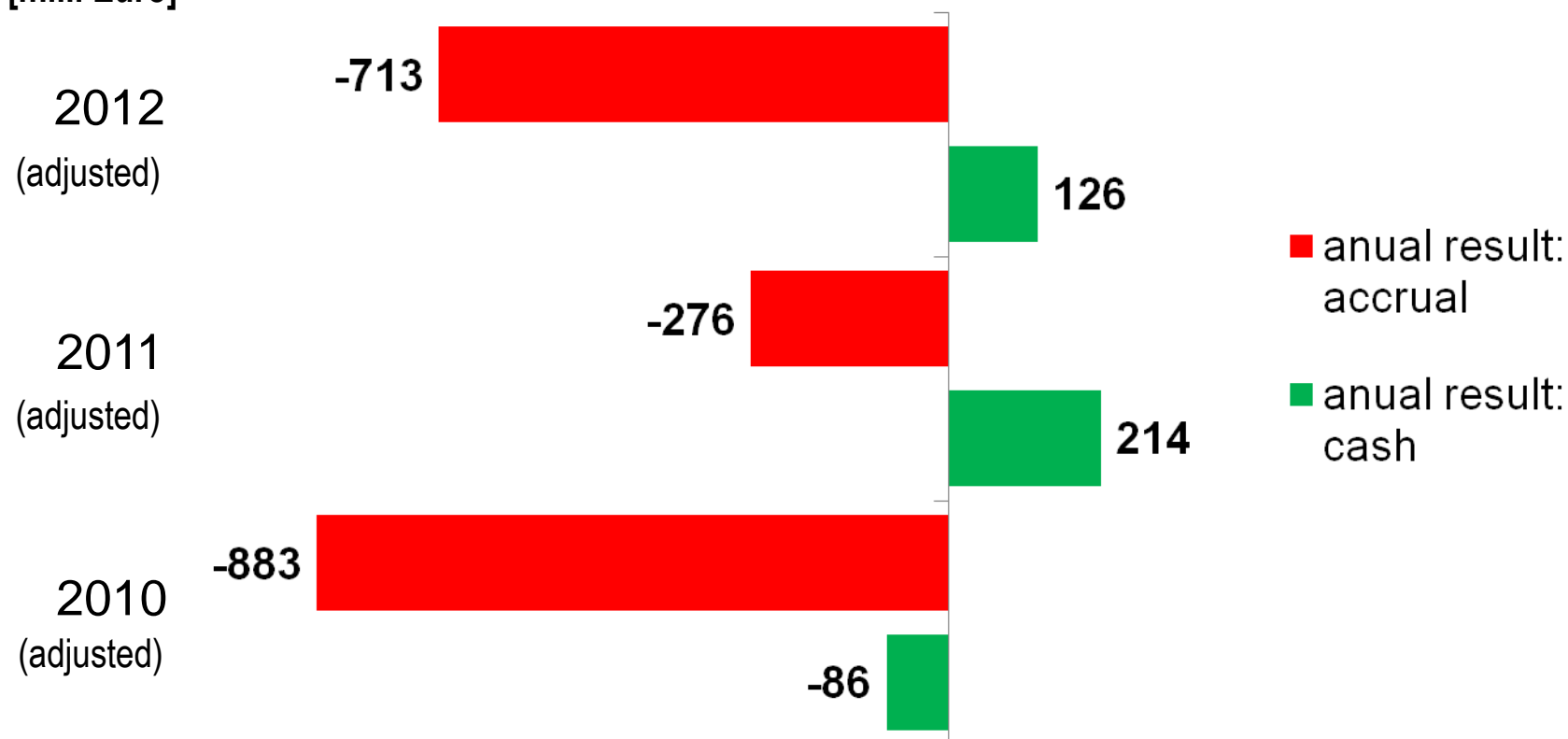
Hamburg court of auditors supported the adoption of accrual accounting from the beginning on:

«The Hamburg court of auditors sees the implementation of an accrual accounting system as pursued by the government as an important step towards improving public management and better financial reporting – in the interest of long term financial stability»

Rechnungshof der Freien und Hansestadt Hamburg
Jahresbericht / Prüfung Jahres- / Konzernabschluss 2007

Annual results according to accrual vs. cash

[mill. Euro]



Opening balance: the challenge



43.767 pieces of land



100 km dikes /
high tide protection facilities



66,8 mill. m²
street infrastructure



3.587 Buildings



122.000 employees /
retired civil servants

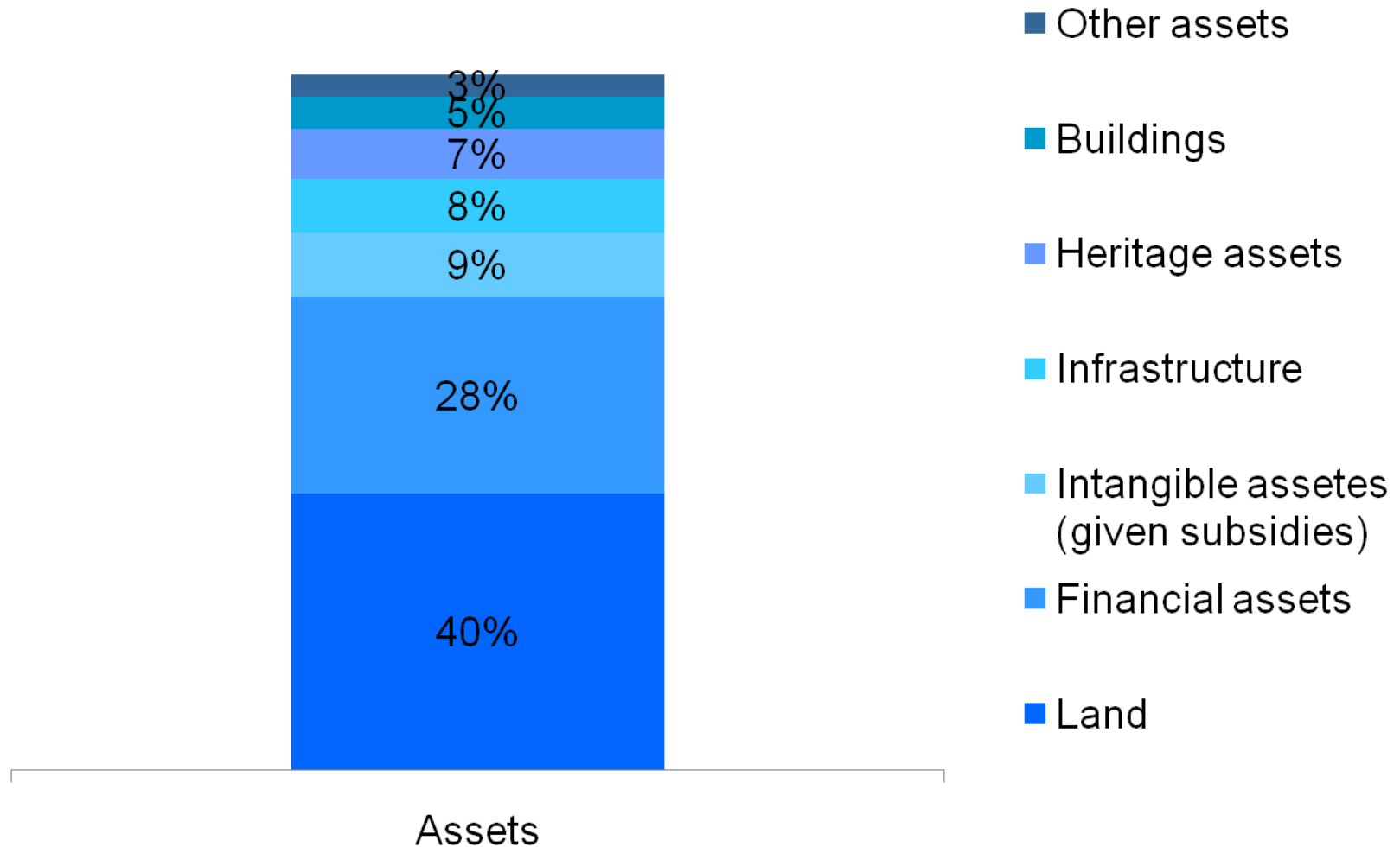


13.000 items technical and office
equipment (cost > 5.000 Euro)

Hamburg: Experience with first time adoption

[mill. Euro]

Assets			Liabilities		
	31.12.12	31.12.13		31.12.12	31.12.13
A. Fixed Assets	44.243	44.377	A. Equity	-	-
I. Intangible fixed assets	4.093	4.117	B. Reserves	1.499	1.367
II. Tangible fixed assets	27.660	22.197	I. Subsidies for investment purposes	1.322	1.229
III. Long-term financial assets	12.490	18.063	II. Other reserves	177	138
B. Current asstes	2.762	2.846	C. Provisions	21.366	27.704
I. Supplies (incl. land for developm	31	15	I. Pensions	19.189	25.777
II. Reveivables / other assets	2.325	2.313	II. Other Provisions	2.177	1.927
III. Cash	406	519	D. Liabilities	27.896	28.432
C. Defferd charges	408	376	E. Deferred income	18	22
D. Deficit not covered by equ	3.366	9.925			
Total	50.779	57.525	Total	50.779	57.525



Public Sector entities that come from cash based accounting face a unique challenge preparing an opening balance:

First time adoption of an accrual system

- after several decades / centuries of „ongoing operation“
- adoption at a balance sheet total of over 50 bn. Euro

Unique situation for first time adopters that integrate budgeting:

- Provisions for pension in the opening balance 27 bn. Euro
 - Results / earnings reconciliation?
 - Provision had not to be „earned“ in the cash based budgeting system (postponed to future budgets)
 - will not be „earned“ anymore in the oncoming accrual budgets (opening balance records the amount that should have been expense in the past)
- However: Accrual makes the fiscal burden transparent!
- But: According to the experience in Hamburg
 - Transparency is a necessary but not sufficient condition for financial stability
 - Fiscal rules and budgeting law matter ...
 - ... thus accrual planning and budgeting make the difference!

Simplification of the opening balance in Hamburg

- **Office and other equipment**

- Opening balance: strong simplification
 - Threshold 5.000 Euro, practically no office equipment in the balance sheet
 - no material impact
 - Successful simplification!
- Ongoing accounting:
 - Successful simplification!

Simplification of the opening balance in Hamburg

- **Evaluation of buildings**

- Fire insurance values
- Included operating equipment such as elevators
- In terms of materiality: acceptable
- Problem in the ongoing accounting: to be consist, replacing the elevator must be expense ...
- ... with the consequence that the simplification in the opening balance is not fully realised in the ongoing accounting
- If capitalized: no disposal of the former asset from the balance sheet possible as no separate asset is recognized nor the value known.
- Simplification was not fully thought through but yielded acceptable results

Simplification of the opening balance in Hamburg

- **Long term equity investments**

- Opening balance: valuation of the participation by „mirroring“ the (pro rata) equity
- Standard for the ongoing accounting: fair value measurement / impairment test proved to be more complicate than the valuation for the opening balance, problems had only been shifted into the future
- Thus the standard for the subsequent measurement was altered: mirroring the equity will continue
- Appropriate simplification in the second attempt!

Simplification of the opening balance in Hamburg

- **Street infrastructure**

- Opening balance: strong simplification
 - total of 67 mn. m² of street infrastructure, estimated average initial cost per m², useful life 30 years, straight-line depreciation
 - total m² divided into 30 „annual slices“/age classes, annual depreciation results in the disposal of 1/30 each year
- Ongoing accounting:
 - Asset accounting for newly build streets or replacement of fully depreciated streets proven practical: capitalization of the cost (addition of a new „annual slice“)
 - Ongoing bookkeeping in other cases virtually impossible: Physical road sections not traceable in the accounting system (for extraordinary depreciation, disposal etc.).
- Simplification of opening balance proved not to be compatible with the standard
- Possible solution new standard: constant measurement/fixed value for the road network as a whole?

Five lessons learned in Hamburg:

1. Mostly, simplification solely in the opening balance won't work : it's the standards that needs to simple
 - otherwise workloads are just shifted into the future
 - or the quality of the balance sheet will deteriorate from year to year due to simplifications that prove to be impractical
2. Simplification by lowering the standards in the beginning won't work:
 - the „gravity“ of a (fairly decentralised) organisation wants to remain at the level just learned
 - Make it right the first time - saves resources in the end
3. Reducing the workload can be best achieved by shifting a large administration into annual waves to accrual accounting (Hamburg planed 3 waves and resulted in 5)
4. Combine adoption of accrual accounting with other reforms: otherwise politicians will only see cost and won't feel any benefits (bare in mind: transparency itself is not perceived as major benefit – necessary, but not sufficient ...)
5. Integrate planning and financial reporting with fiscal and budgetary law to ensure that the adoption has an impact on financial stability