

38th Annual Meeting of OECD Senior Budget Officials
Lisbon, 1 June 2017

Portuguese Public Financial Management Reform - Current Developments -



Unidade de Implementação
da Lei de Enquadramento Orçamental

PFM Reform Unit

André Marçalo, Coordinator

1. Background
2. UniLEO – PFM Reform Unit
3. Implementation of the New Budget Framework Law
4. Implementation of the New Accounting Rules
5. Conclusions

Where we come from...

Date	Milestone
2013-07-30	Accounting Standards Setter issues the guidelines for the new public accounting rules
2014-08-28	Appointment of the Comission for the reform of Budget Framework Law
2015-05-26	Accounting Standards Setter approves a proposal of new public accounting rules
2015-09-11	The New Budget Framework Law (Law 151/2015) and the New Public Accounting Rules (Decree-Law 192/2015) are published in the Official Gazette
2015-11-19	Identification of the first group of pilot entities and approval of the strategy for management of such entities
2016-01-27	Accounting Standars Setter aproves the proposal on the (i) explanatory notes to the accounts and (ii) simplified accounting framework

Where we come from...

Date	Milestone
2016-04-05	Circular 1381/DGO – Central Accounting and Reporting System
2016-06-28	Kick-off of the training of the pilot entities
2016-06-29	Web site for the clarification of accounting queries is made available and an Implementation Handbook is released
2016-07-14	Portaria (<i>Act</i>) 189/2016 with the explanatory notes to the accounts is published in the Official Gazette
2016-08-09	Portaria (<i>Act</i>) 218/2016 with the simplified accounting framework is published in the Official Gazette
2016-11-23	Creation of the PFM Reform Unit (Decree-Law 77/2016)

Where we come from...

Date	Milestone
2016-12-21	➡ Postponing of the new accounting rules to January 2018 and identification of the necessity of creating a specific action plan
2017-04-05	➡ Portaria (<i>Act</i>) 128/2017 with a dissemination and implementation strategy for the new accounting rules is published in the Official Gazette

... and where we are heading to

- ➡ Projects for the implementation of the new Budgetary Framework Law
- ➡ Managing the transition of the different entities to the new Public Accounting Rules

Profound reforms need:

- Leadership of the process

From the top to the bottom, a responsible for each project must be identifiable

- Dedicated teams and resources

Project activities are hardly compatible with day-to-day tasks and resources (financial and other) must be made available

- Accountability

Each responsible must deliver

- Political ownership

To sum up, profound reforms need “Change agents”



PFM Reform Unit presentation

- Mission

Implement the new Budget Framework Law and manage the transition to the New Public Accounting Rules

Drivers of the PFM Reform

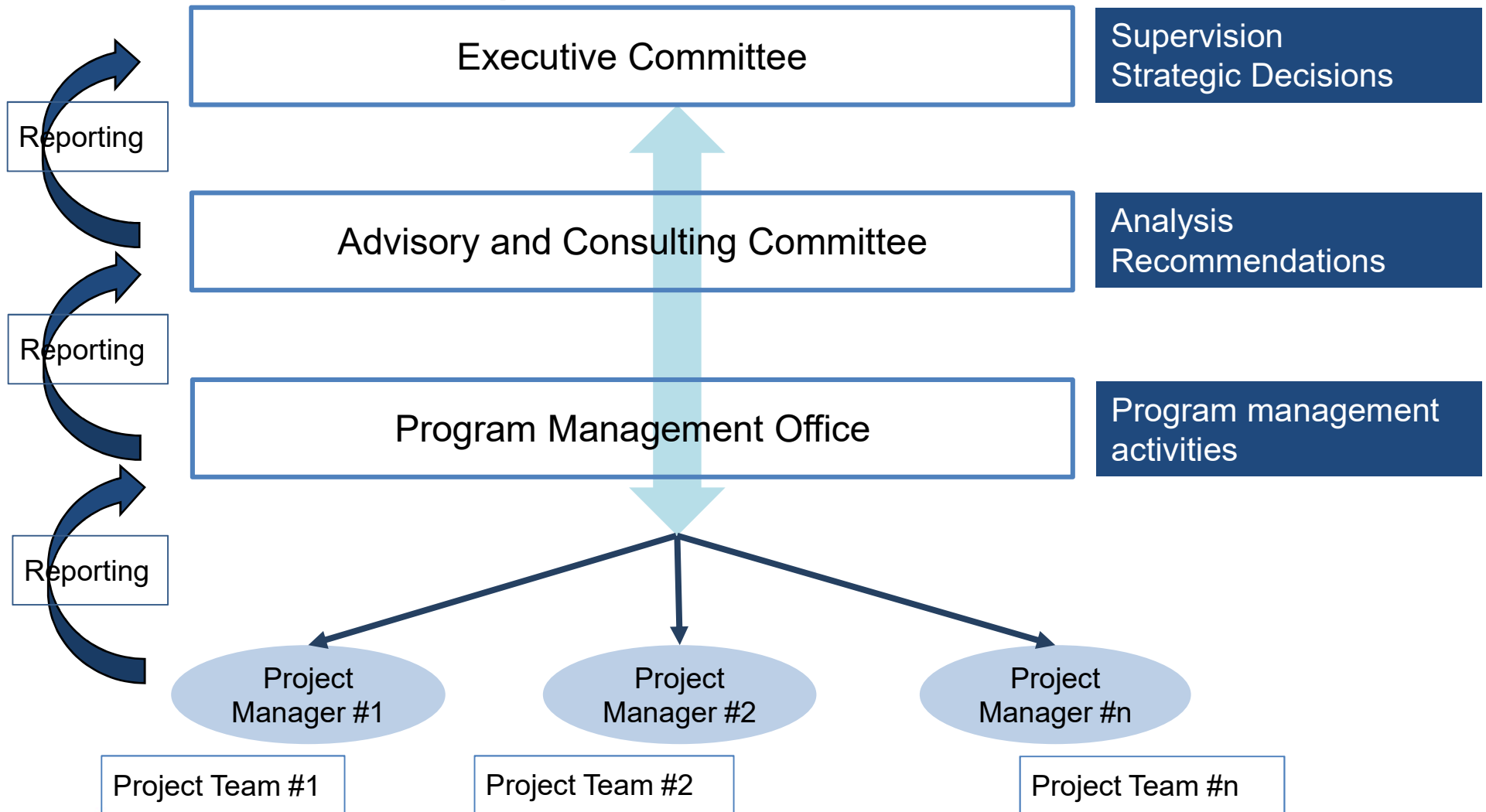
- Structure

Executive Committee | Advisory and Consulting Committee | PMO

- Current management

Unit Coordinator | Technical Manager | Project Managers

PFM Reform Unit presentation



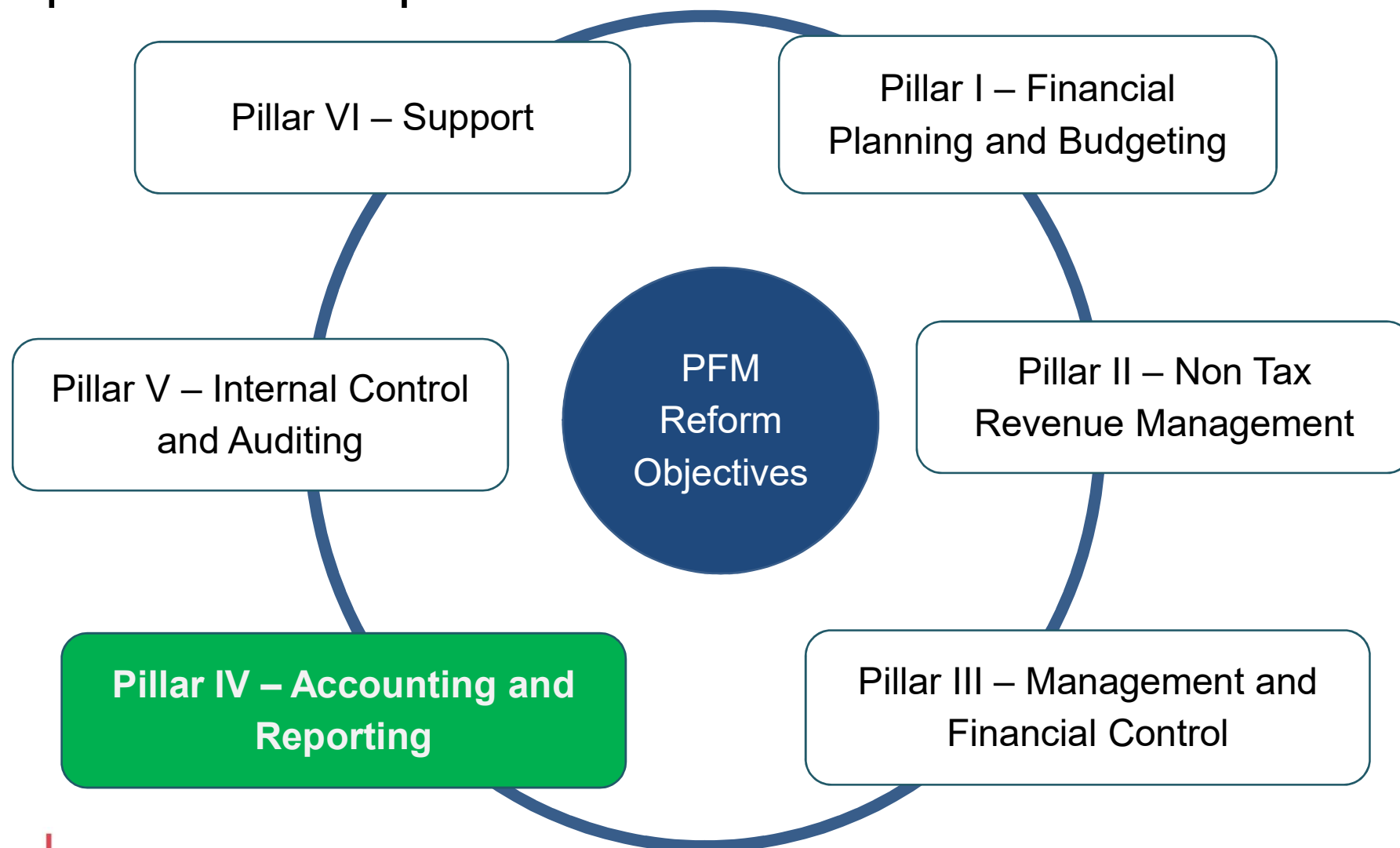
Implementation plan

- Implementation plan prepared by the PMO and thoroughly commented by the Advisory and Consulting Committee

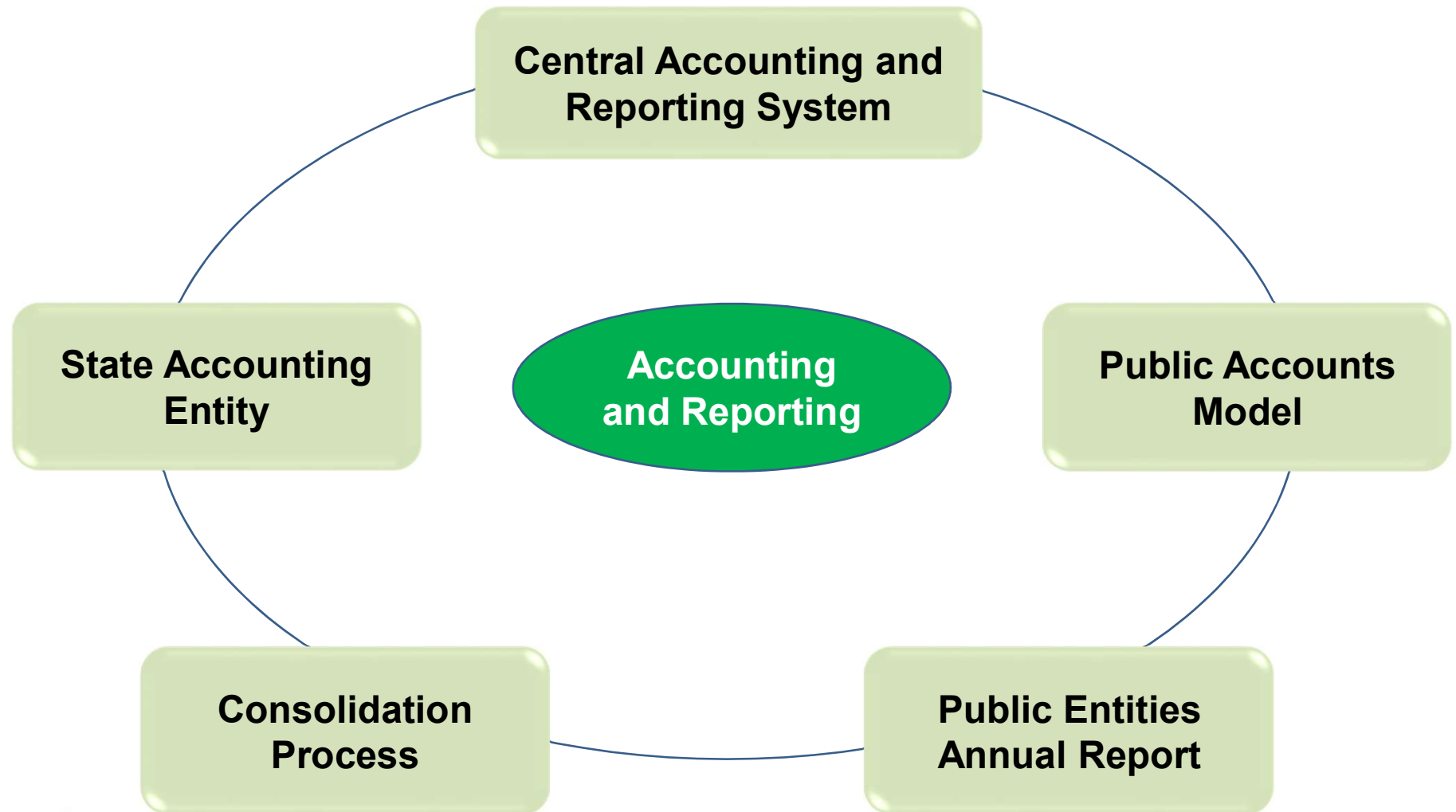
- Purposes of the implementation plan
 - Working tool for the reform Unit
 - Follow-up of the implementation projects
 - Enhances transparency of the Unit's activities
 - Makes the Unit accountable by the resources and results

3. Implementation of the New Budget Framework Law

Implementation pillars



Accounting and reporting implementation projects



Accounting and reporting implementation projects

■ Objectives

- ❑ Reliability and scope of public finance indicators
- ❑ Transparency of public finances
- ❑ Public management
- ❑ Accountability
- ❑ Accrual accounting as a basis of statistics

■ Projects under implementation

- ❑ State Accounting Entity
- ❑ Central Accounting and Reporting System

State Accounting Entity

Kick-off of the SAE project in October 2015...

Implementation Axis #1
Conceptual model and normalization instruments

Activities

Status

1. SAE conceptual model
2. Accounting and reporting handbook
3. IT Public tender documentation
4. Consolidation handbook

1. **Completed**
2. **Kicked-off**
3. **Completed**
4. **Kicked-off**

State Accounting Entity

Implementation Axis #2 IT Implementation and Training

Activities

Status

5. IT implementation

6. Strategy for the opening balance sheet

7. Governance regulation

8. Training

5. Pub. tender

6. Kicked-off

7. Kicked-off

8. Kicked-off

State Accounting Entity

Implementation Axis #3 Pilot Implementation

Activities

Status

9. Opening balance sheet – Pilot

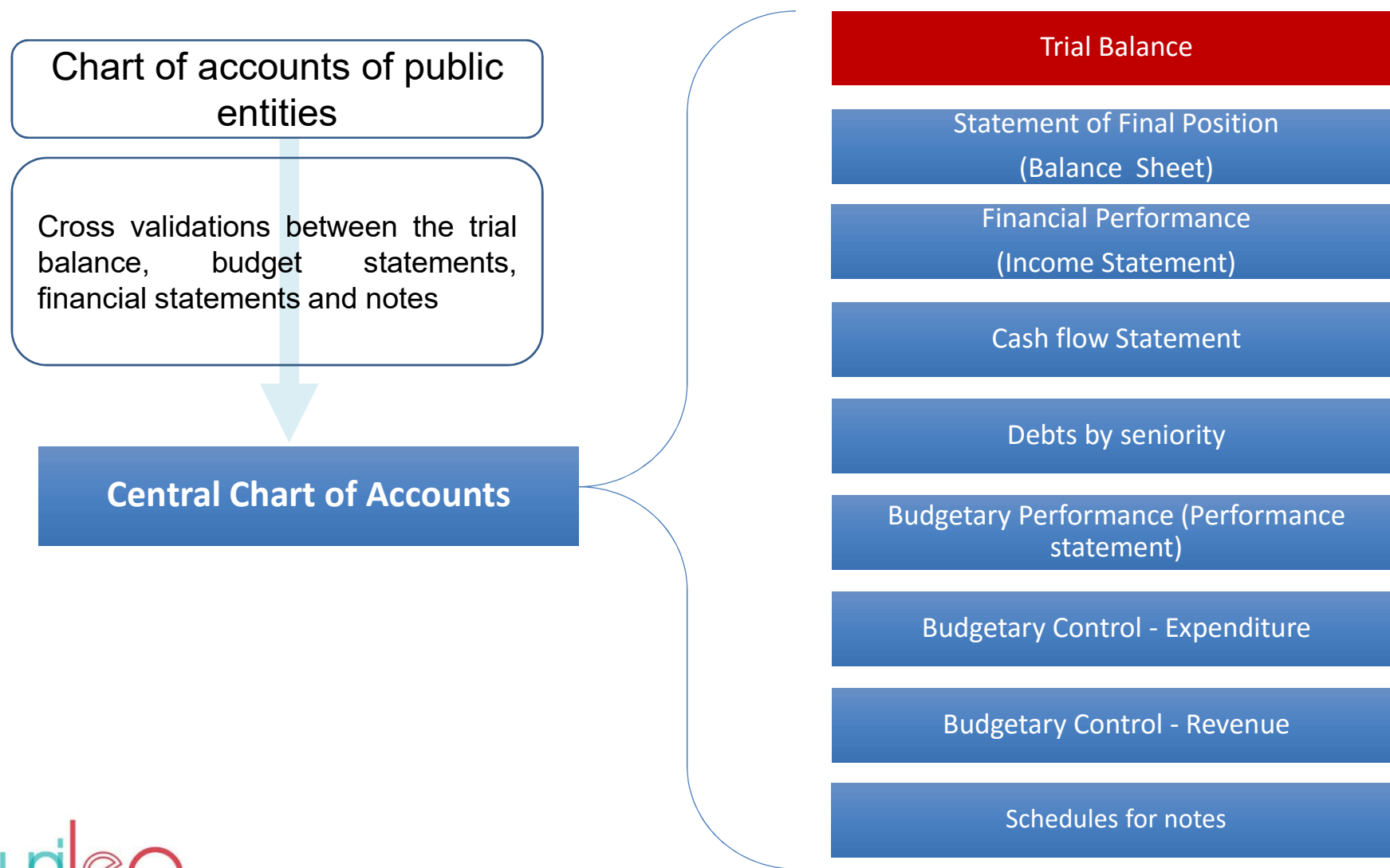
10. Transactions and events registration in the SAE

9. Depends on #5

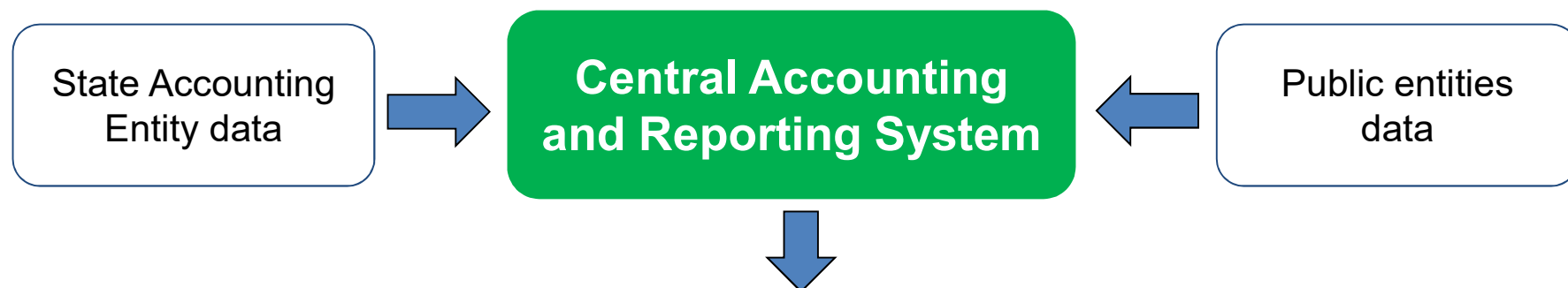
10. Depends on #5

...and legal existence of the SAE as of 2019.

Central Acc. and Reporting System – Characteristics



Central Acc. and Reporting System – Outputs



Outputs

Individual budget and financial statements (SAE, other public entities)

Consolidated budget and financial statements (Ministry, Budget Program, Public Sector(s))

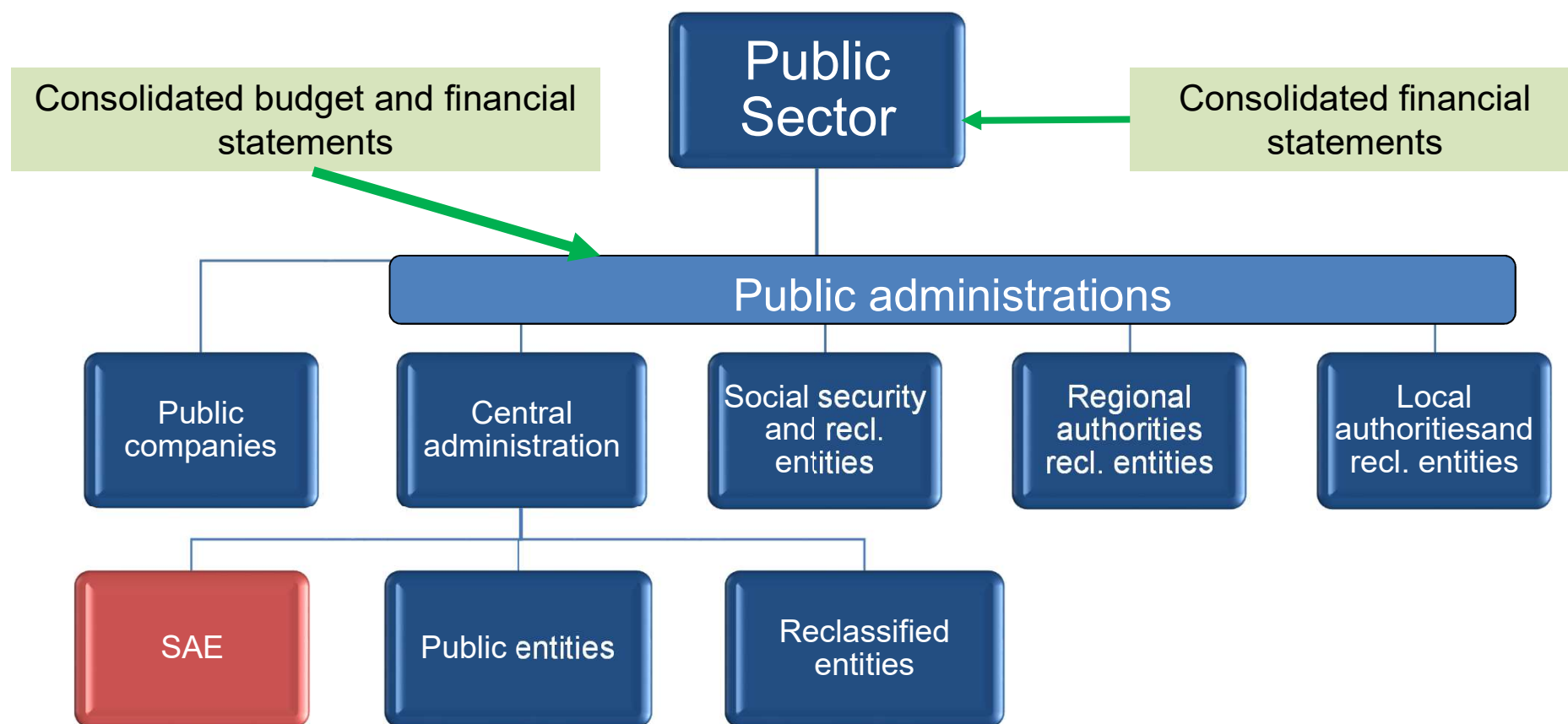
Management reports for budgetary and financial control

Reporting – new State General Account

Government finance statistics reporting (ESA 2010)

3. Implementation of the New Budget Framework Law

Consolidation process - perimeters



Consolidation process - objectives

- Clear view on the assets and liabilities of the public administrations, including contingent liabilities and other sources of budgetary risks
- Producing a new set of indicators – not only deficit and debt – as a tool to monitor the performance and sustainability of the public finances
- Accountability of decision takers on a medium/long-term perspective: assessment of economic and financial impacts, and not only of cash flow impacts
- Producing national accounts based on financial statements (accrual based), rather than on the basis of adjustments made to cash year-end balances

New set of indicators

- The accounting and reporting reform should lead to production of a new set of financial indicators:
 - Consolidated financial results
 - Net worth
 - Debt measured in accordance with international standards
 - Consolidated net debt
 - Consolidated EBITDA

- Public entities must be economically and financially balanced

We may divide the dissemination and implementation strategy for the New Public Accounting Rules in three main tasks:

- Setting the technical requirements
- Training
- Monitoring the transition

Setting the technical requirements – NT 1/2017

- Functional and technical requirements that software houses must comply with
- Definition of a central chart of accounts (budgetary accounting and financial accounting)
- Cross validations between the trial balance, budget statements, financial statements and notes (more than 200 technical and accounting rules for integration into the Central Accounting and Reporting System)

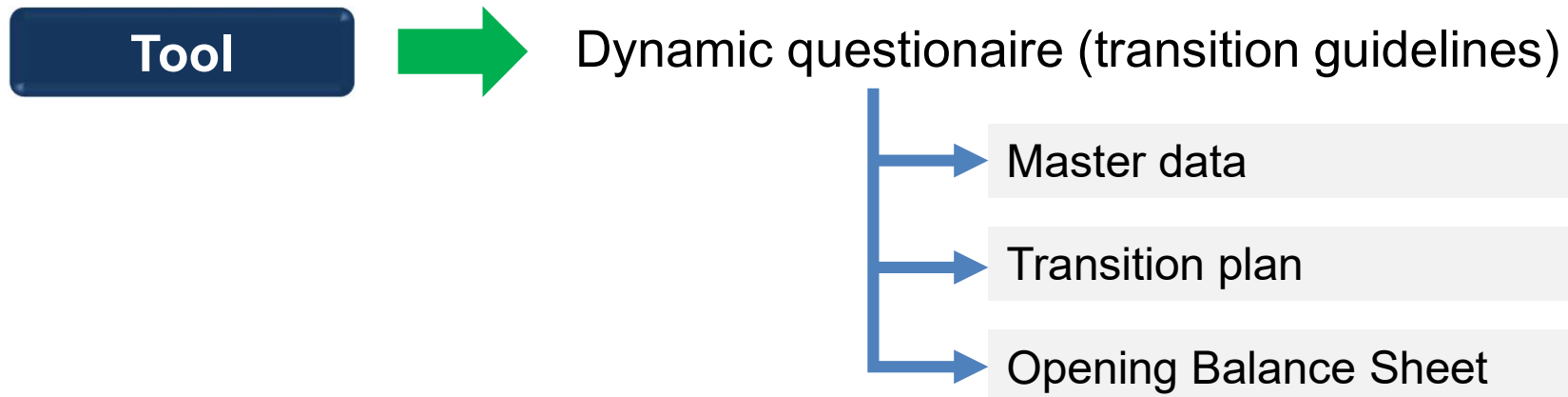
Setting the technical requirements – NT 1/2017

- Webservices for direct communication between the local systems and the Central Accounting and Reporting System
- Requirements for consolidation purposes (trial balance identifies intra-group transactions and balances and type of movements)

Training

- Training, at all levels, is a condition precedent to the reform
- Different training programs to meet different needs (local authorities, small entities)
- Cooperation with the associations representative of the local authorities
- E-learning

Monitoring the transition



- Monthly updates
- Results to be shared and discussed between stakeholders – effective action, if necessary
- Basis for the transition report to be delivered by the entities

Risks

- Lack of permanent political leadership
- Lack of communication of the benefits of the reform to the stakeholders
- Lack of pilot phases
- Lack of coordination between technical teams (IT systems) and functional teams (accounting requirements)
- Fragility of local IT systems
- Poor training at different levels

Final remarks

- New dedicated PFM reform unit
- Core team (15-20 people) in the Ministry of Finance
- The importance of a fully dedicated team with strong accounting and reporting experience and expertise
- Management of the relations with consultants (program management approach with quality management)
- Accounting and reporting is a fundamental pillar of the reform (basics first)

Final remarks

- Accrual accounting as a means to a new generation of fiscal rules Accounting as a strong foundation for sound fiscal policies
- EU enhanced fiscal surveillance needs harmonized accounting standards (EPSAS/IPSAS)
- Cooperation between the different stakeholders
- Strengthening of the accounting functions in Ministry of Finance and Line Ministries
- Change management and proactive discussions between accountants and economists

Thank you for your attention.

Visit our webpage www.unileo.gov.pt

Or contact us by email: andre.marcalo@unileo.gov.pt (Coordinator)

luis.viana@unileo.gov.pt (Technical Manager)

