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NAM

The New Accounting Model of the Swiss Confederation

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Executive summary

In light of the growing demands on financial management, the decision was taken to overhaul the Swiss Confederation's accounting system. The New Accounting Model (NAM) – in use for the first time in the 2007 budget and the 2008-10 financial plan – contains *two fundamentally new approaches*.

First of all, the NAM takes a *dual perspective* in presenting the Confederation's financial processes and circumstances. For overall fiscal policy management in accordance with the debt containment rule, which requires a balance between revenue and expenditure, the cash or financing aspect remains the focal point. This is conveyed in the financing and cash flow statement. However, in terms of administrative and operational management, the performance aspect now takes centre stage. As in the private sector, this is displayed in the income statement and supplemented with operational cost accounting. This makes a substantial contribution to ensuring the efficient and effective use of funds.

Secondly, the Confederation's financial reporting under the NAM is based on the International Public Sector Accounting Standards (IPSAS), the only comprehensive and generally accepted set of guidelines for the public sector. This ensures transparency and continuity in financial reporting, producing more meaningful financial statements. Moreover, the new accounting structure and the transition to business-oriented accounting practices brings the Confederation closer to the accounting standards of other public authorities and the private sector, thereby improving comparability. In turn, transparency and comparability facilitate the job of financial management and help generate confidence among the public.

The overhaul of the accounting system simultaneously affects the accounts structure, the accounting, budget management and financial reporting, as outlined below in the main features of the NAM.

The *accounts structure* is largely based on the model used in private industry, comprising the income statement, the balance sheet, and the financing and cash flow statement. The *income statement*, which is drawn up at the level of the administrative unit and consolidated at federal level, is now an important element in the financial statement of the Confederation. It forms the basis for the appropriation of credits and for deriving the financing approach. The income statement compares expenses (decrease in value) from one accounting year with the corresponding income (increase in value), showing in its balance the net surplus, which is posted in the balance sheet as profit or loss.

The *balance sheet* provides information on the Confederation's asset and capital structure and shows in its balance the accumulated deficit from the previous years (or equity in the case of a surplus). Its layout has changed only slightly under the NAM. However, the balance sheet is now drawn up at the level of the administrative unit for the first time.

The *financing and cash flow statement (FCFS)* is used for calculating overall financing requirements. In its financing section – basically like in the old financing statement – it shows revenue and expenditures and is therefore of particular importance in overall fiscal policy management, which seeks to balance the budget. The FCFS is derived from the income statement and the balance sheet and disclosed for the Confederation as a whole.

Finally, investments are posted separately at the level of the administrative units for the purpose of appropriating credits – a characteristic feature of public accounting. (As this involves financial flows, parliament has to be able to determine investment expenditure to ensure it remains within the debt containment rule). Investments are combined with the items from the income statement to form what is known as the *credit view*.

Budgeting and accounting are carried out under the NAM in accordance with standard business practices, i.e. taking a performance approach. All assets are now posted in the accounting period in which they are consumed or created («accrual accounting and budgeting»). In addition, events of merely book-entry nature, e.g. depreciation, are now posted. Now that the balance sheet items are valued in accordance with the «true and fair view» generally used in the private sector, which replaces the prudence concept from the Code of Obligations, there are a number of valuation changes – some quite substantial – with respect to the old balance sheet.

Budget management under the NAM follows the *dual control principle*. The administrative units are now managed on the basis of the income statement and statement of investments as well as *cost accounting*. Of significance here are both the fiscal policy criteria of parliament (budget decision) as well as the business-oriented viewpoint of the administrative units (budget implementation). The systematic decentralisation of credit responsibility and the introduction of internal service charges promote a sense of cost awareness and an economical use of funds. Together with the introduction of the NAM, the FLAG model (german acronym for management by performance mandate and global budget) is extended to numerous other administrative units.

However, there are only few changes in terms of overall fiscal policy management, where the financing and cash flow statement continues to play a central role in managing the debt containment rule («debt brake»). Likewise, the financial plan remains the central steering instrument of the Federal Council and parliament in setting (fiscal) policy priorities in medium-term task planning.

Financial reporting has been given a complete makeover in the NAM, now including additional content. It is thus more meaningful than the previous system. Thanks to its modular structure, the various stakeholder groups can now quickly gain an overview of the asset, earnings and financial situation of the Confederation and, if necessary, access more in-depth information.

Through the introduction of its formal structure, the NAM project has reached an important milestone and entered a new phase. This does not bring to an end the various developments introduced with the NAM to optimise overall fiscal policy man-

agement and create a new public management system focusing on business-oriented principles. Rather, the NAM should be seen as an ongoing process of learning and adaptation that requires updating and practical use to ensure continuous improvement.

1. A new federal accounting model

In every organisation, accounting is a financial reflection of its economic processes and circumstances. Accounting has the role of presenting information of financial relevance that is needed for the successful management of the organisation. It also serves to provide a wide range of stakeholders with accurate details about the course of business and the financial impact thereof. Accounting thus serves two fundamental purposes:

- First, it should render an account to the outside world. Stakeholder groups such as shareholders and creditors, or – in the case of the public sector – the parliament, political parties and taxpayers, should be told where value has been created or lost in the previous period, the sources from which money has been received and how this has been spent, and finally, how the financial situation has evolved over the period. Armed with a transparent, coherent and standardised report and presentation of these facts, the relevant parties can then exert their influence on the future of the organisation within the scope of their rights and obligations. In addition, accounting should also – like a financial diary – provide the basis for testing the legality of financial operations.
- Secondly, accounting should support financial and operational management by taking an inward look at the organisation. The availability of detailed and specific information

enables those responsible to steer business processes in accordance with their mandate and to perform them economically. Accounting thus plays a role in internal management and decision-making.

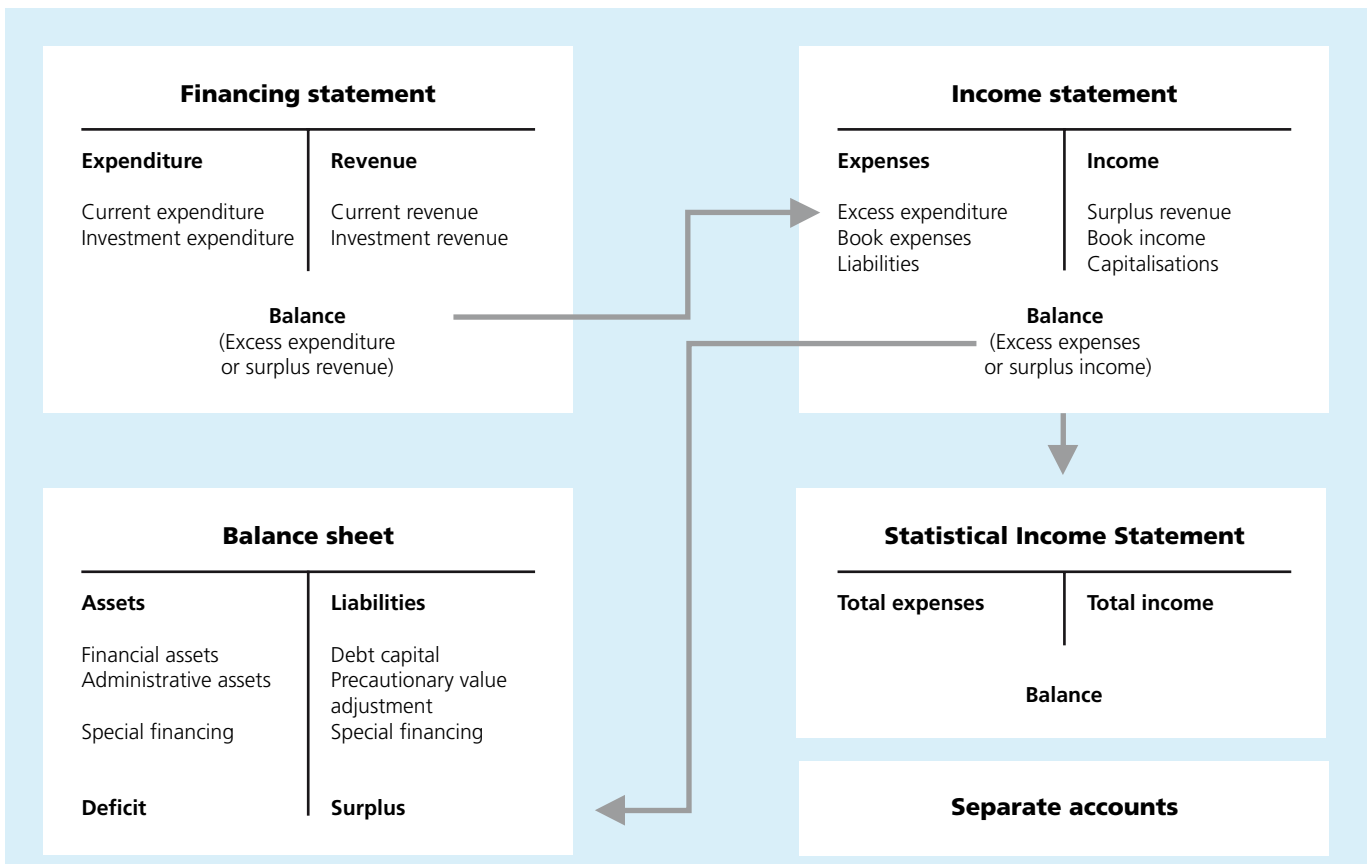
These basic functions are performed with the help of various systems. What is most important is that the accounting model be structured to match the organisation’s management standards and objectives and to meet the users’ information requirements. In turn, these factors depend on the organisation’s objectives and mandate and on its institutional position.

Accounting differs between the private and public sectors

In the private sector, accounting focuses on the process chain to «invest – create and use up value – refinance». In other words, profitability and liquidity lie at the centre of all private-sector actions and decisions. The central elements of accounting are thus the income statement, the cash flow statement, the balance sheet and a carefully honed internal cost accounting.

Unlike in the private sector, the main priority in the public budget, funded mainly by taxes, is not profit but equilibrium between expenditure and revenue. The financing approach is

Fig. 1: The former federal accounting model



thus of particular importance. This is especially so in the case of the Swiss Confederation, with its high level of transfer spending («subsidies») and a relatively low level of operating spending, with a mostly steady level of investment expenditures and a budget size that is relevant in macroeconomic terms.

The financing statement: the cornerstone of the old federal accounting system

In the past, the federal accounting system had at its heart its financing statement. This shows the revenue and expenditure resulting from the fulfilment of the mandate and subdivides these further by administrative unit and purpose. At an aggregate level, the balance shows the extent to which the Confederation's current expenditure and investments are covered by revenues. The financing statement was used simultaneously for both internal and external purposes: as a financial reflection of the parliament's and government's programme, it rendered account to the outside world, whilst, at the same time, it served as a management and information tool for setting priorities in fiscal policy, for managing credits for administrative units and the overall budget, and for analysing the economic impact of the Confederation's financial management.

The previous federal accounting system also had an abridged income statement, which was derived from data in the financing statement. This was used to determine the impact of budget management on assets and liabilities, i.e. the balance sheet. Both the balance sheet and the income statement were drawn up at federal level only, and not for the individual administrative units. Furthermore, the income statement gave no details about the individual types of expense and income, which had to be estimated with a statistical income statement (Fig. 1).

For many years, the former federal accounting system, centred on the financing statement, satisfied the needs of external information and strategic policy management. However, a number of flaws in the system began to emerge in recent years as the role of business management in the public sector came to the fore.

Increasing demands on public management – and on its accounting

As the public mandate broadened in scope, with growing expectations on the quality of state services, a number of reforms have been undertaken in recent years to improve operating efficiency and efficacy in the public sector. This calls for – apart from the issues of strategic policy – a public management system that concentrates not just on legal correctness but also on the costs and outcome of its actions.

Of course, broader management goals mean new information resources. Thus, the Confederation set about overhauling its accounting system more or less in parallel with the reforms in government and public management. It was clear from the start that an efficient accounting model would still have to portray

the financing approach – after all, this forms the basis for overall budget management. However, from now on, the financing statement takes a back seat to a complete income statement, which focuses on the operating level and, most especially, operating cost management.

Together with the generally accepted public-sector accounting principles, this dual approach lies at the core of the new federal accounting model.

The objectives of the New Accounting Model

With the NAM, the Confederation wants to provide transparent and comprehensive information on its earnings, financing and asset situation. This information should allow decision makers and stakeholder groups to make a reliable, differentiated and appropriate assessment of the Confederation's financial circumstances and processes and to deduce qualified decisions. The reform focuses on two main objectives:

- In line with the greater need for control, the accounting model should adopt a dual approach to the Confederation's financing and business management.

The *financing approach* – conveyed in the financing and cash flow statement – is relevant for reconciling expenditure and revenue, as specified in the debt containment rule. It is significant when it comes to setting priorities in spending policy and in medium-term financial planning. As this approach shows the financial impact of the government's actions, it is also important for the political parties and taxpayers, as well as for economic studies and comparisons.

The *performance approach* – now shown in the income statement – displays the expenses and income that the administrative units incurred or generated in the year under review. Together with an extended cost accounting system, this provides the key management information required for efficient and effective running of the administrative units and enables those responsible to identify and utilise their scope for action. The presentation of the actual cost situation is also informative at a strategic level.

The financing and performance approaches each interpret the federal budget from a different perspective, and the information they contain fulfils two different management roles. Nonetheless, both viewpoints are critical: they complement each other and together form a comprehensive overview.

- The second objective – *transparency* – refers to the quality and form in which the financial processes and circumstances are shown. Transparency in an accounting system is a quality that is both highly demanding and multifaceted. Transparency means that the financial circumstances are disclosed in a manner that is equally factual, clear and understandable.

Continuity and compatibility are also important: only then can comparisons be made over time and with respect to other public authorities. Finally, the ultimate objective of creating transparency is to generate trust among all the individuals and institutions concerned by the accounting results.

Transparent and reliable information depends on consistent, recognised principles in accounting, book-keeping and financial reporting. The NAM is therefore largely based on the International Public Sector Accounting Standards (IPSAS), which were specially drafted and refined with the public sector in mind. In taking its cue from these standards, which in turn are based on the IFRS/IAS standards used in the private sector, the federal accounting system is taking a big step towards harmonisation with other public authorities and the private sector. It also facilitates international comparisons, making it easier to understand the accounts and form an opinion, which also adds to transparency.

In order to meet these two main overriding objectives, the federal accounting model has been completely restructured.

What is new about the New Accounting Model: an overview

The NAM contains new features at all levels. These concern the basic structure of the model with its individual accounts, the principles of budgeting and accounting, budget management and financial reporting. As an overview and, at the same time, a preview of the following chapters, the most important new elements are briefly outlined here:

- *New structure of the basic model:* The basic components of the NAM are – largely in keeping with the financial statements of private companies – the income statement, the balance sheet and the financing and cash flow statement. At the level of administrative units, investments are posted separately. This statement of investments is combined with the items from the income statement for the purpose of credit appropriation to form the «credit view», which is being introduced as the new budget format at the level of administrative units.
 - *Income statement as the cornerstone:* The income statement is the foundation for accounting and budgeting, performed on a decentralised basis at the administrative units, as well as for the Confederation's budget and financial statement, which are prepared in the central accounting system.
 - *Transition to a business-oriented accounting system:* This is based on the principle of accrual accounting and budgeting, whereby all revenues and expenses are posted in the period in which they are actually incurred. Also, accounting now includes transactions that are merely incurred in book-entry form and have no financing consequence, such as depreciation or provisions. Both of these rules are fundamental to the performance approach.
 - *Adaptation of accounting principles:* In following the International Public Sector Accounting Standards (IPSAS), the new accounting system ensures transparent government accounts and a high standard of financial reporting. This improves the level of comparability with other public authorities and with companies in the private sector. In the balance sheet, in particular, the application of new principles results in significant valuation adjustments.
 - *Budget management:* The financing statement remains in the foreground for overall fiscal policy management of the federal budget with respect to the debt brake. Likewise, the three-year financial plan remains a central tool for the Federal Council and parliament. The new sources of information provide a clearer picture of the federal budget as a whole, the spending trends in the various task areas, and the financial situation within the administrative units.
- The underlying principle of dual control in the NAM results in some completely new features, particularly for the administrative units, which are now managed on the basis of the income statement and the statement of investments as well as operational cost accounting. Along with the credit responsibility being further decentralised to the consumer units, the improved management information fosters greater cost awareness and value-for-money public management. Furthermore, the FLAG model will be extended to numerous other administrative units.
- *Internal service charges (sc):* For certain areas, the exchange of goods and services within the federal administration is treated as a credit. With the use of internal service charges, the Confederation wants to raise the level of cost transparency in public management and also create competition between internal suppliers and with external competitors. Both of these objectives aim to improve operating efficiency. The application of internal service charges is only possible if the service provider uses cost and performance accounting.
 - *Cost accounting* is being introduced comprehensively at the federal level along with cost accounting. Three standards ensure a flexible application of cost accounting, tailored to match the administrative units' specific information requirements. The expansion of management information allows a focused cost management for the administrative units and, at a federal level, the use of benchmarking tools.
 - *Financial reporting:* Reporting has been given a complete makeover, which includes new content. With the new, modular structure, the various user groups can learn about federal finances rapidly and in the desired level of detail. The new financial reporting strives to present a factual, clear and understandable picture of the Confederation's earnings, financing and asset situation. One new component of reporting is the extended notes section, which provides additional information on the budget and financial statements.

With these new elements and, in particular, the introduction of the dual approach, the NAM aims to present the federal budget in a comprehensive and transparent manner. It

differentiates between and, at the same time, combines the fiscal policy and business-oriented perspective and allows for a high standard of management of federal finances.

2. Structure of the New Accounting Model

The structure of the NAM can be outlined in three steps. The first step is to ask which basic information the accounting is supposed to present. This question leads to the three fundamental components of the model: the income statement, the balance sheet, and the financing and cash flow statement. In terms of function, these are closely related to the elements of the private-sector model. As an additional feature of public financial management, the NAM also shows capital expenditure (investments). This is important for the appropriation of credits by parliament and – together with the items from the income statement – is used to form the so-called credit view.

The second step is to decide on how to structure these basic components by determining their layout. Here, too, the information requirements of management are decisive. Whilst a condensed image of the Confederation as a whole is sufficient for the overall management of fiscal policy, the administrative units and departments require additional information for the smooth running of their financial management. At the same time, the individual accounts must be structured such as to enable comparison at a domestic and international level.

Finally, the third step is to connect the various components. This is done with the standard schedule of accounts, of which the detailed charts of accounts relate the components at all levels of the federal administration – from the administrative units

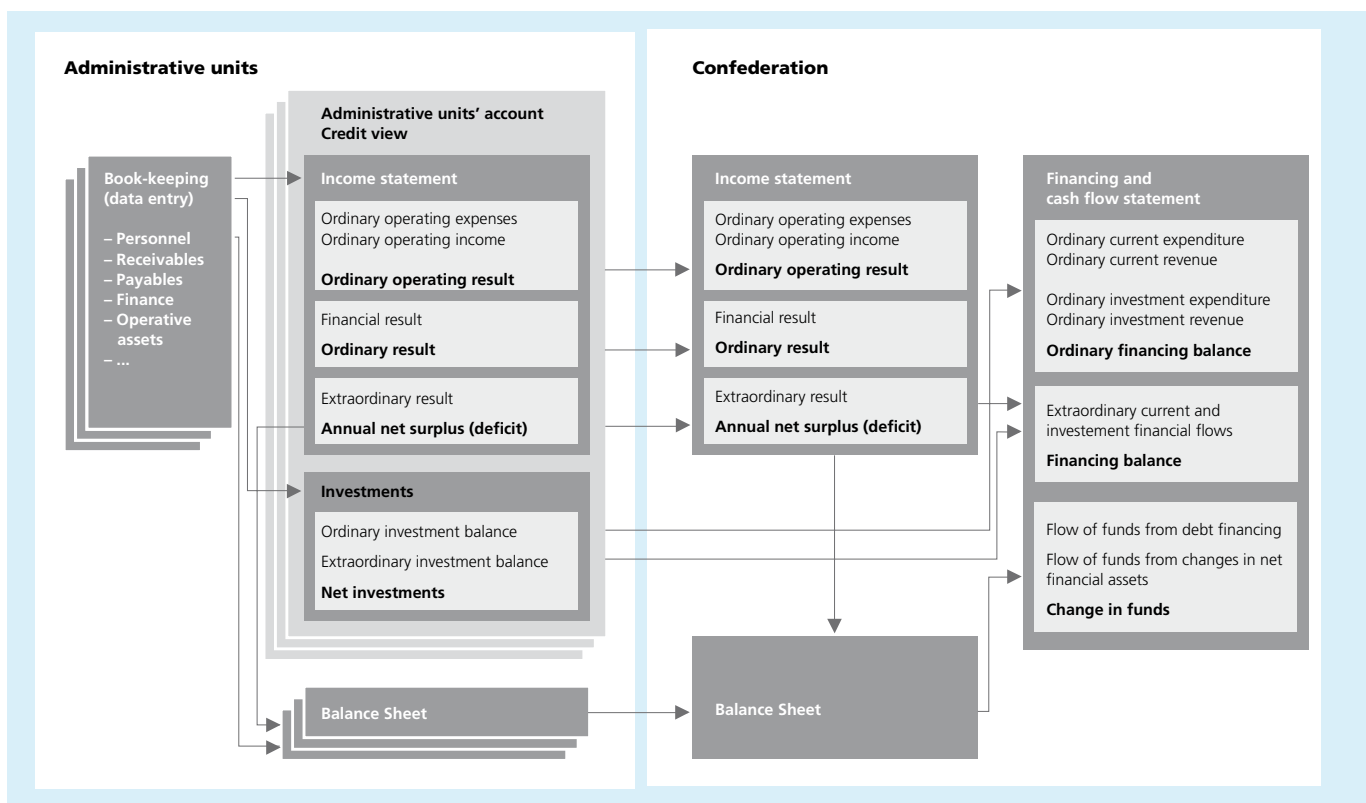
to the departments and up to the Confederation itself – and integrate the accounting model both horizontally and vertically.

Fig. 2 gives an overview of the basic components of the NAM, their positions in the system, their breakdown and relationships.

The use of a uniform standard schedule of accounts and the same account structure throughout the federal administration ensures a seamless system that forms a unified whole. All sections of the financial statement of the Confederation are based on the same financial data, which is recorded decentrally by the administrative units according to the same rules: the financial accounting uses the actual values, whilst the planning module uses the target values from the budget and financial plan. The benefits are obvious: through the standardisation of financial processes – documented in a clear and comprehensive manner and protected with a uniform internal control system – and the removal of interfaces, the new system is clearly more resistant to errors. The financial information gains in quality and reliability and is an ideal support to management at all levels.

The following paragraphs outline the information provided by the system’s basic components, how these components are structured and the role they play in fiscal policy and business-oriented management.

Fig. 2: Position, breakdown and relations of the basic components in the NAM



The income statement records expenses and income and shows the annual result

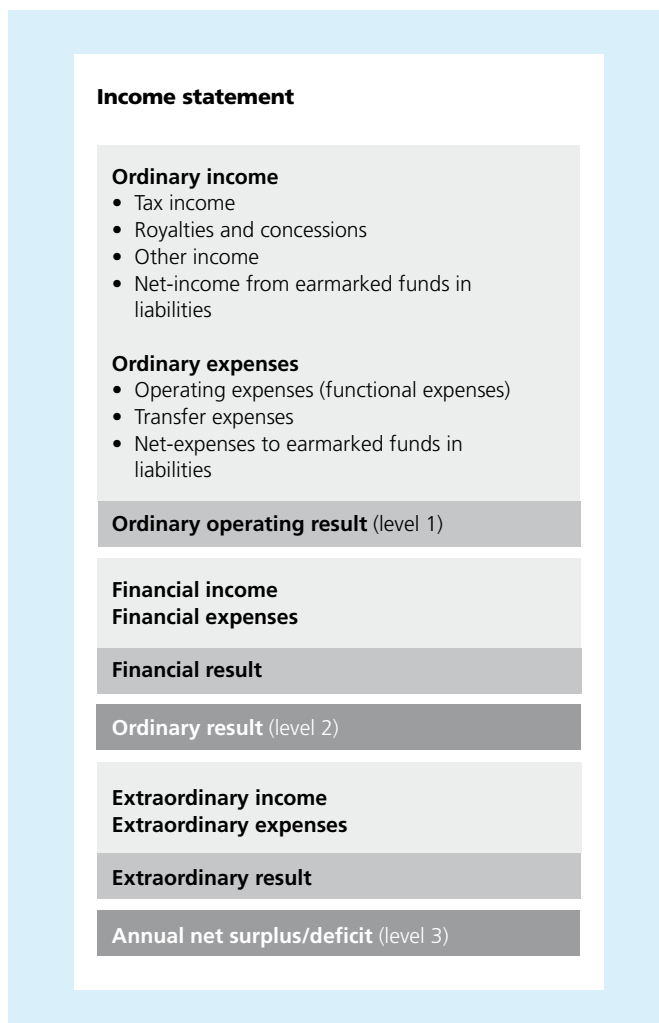
The income statement is now more complete in the NAM. It forms the basis for accounting, the preparation of financial statements and budgeting for the administrative units and in the central accounting system. Above all, however, it conveys the profit and loss view, which is important for operational management.

The income statement shows the resources consumed by the Confederation during the accounting period and the values it has created. Its main components on the income side are income from taxes, duties and fees. On the expenses side, the income statement shows the loss in value stemming from the Confederation's activities (operating expenses), which also includes depreciation, the expenses for subsidies and contributions to other budgets (transfer expenses) and expenses for earmarked funds in liabilities (e.g. Volatile organic compounds incentive tax). The balance of income and expenses produces the annual result, which is posted in the balance sheet as a surplus («profit») or a deficit («loss»).

As the income statement compares expenses and income, i.e. value flows (and not revenue and expenditure, which, as financial flows, come under the cash flow statement), it is drawn up according to standard business practice. Two rules are important here, both of which are completely new in federal accounting:

- First, income and expenses are posted in the accounting period in which they are incurred («accrual accounting»). This follows what is known as the *realisation principle*, where an amount for a service is posted at the time of delivery. In the case of taxes and transfer payments, the critical time is the point at which the service exists in a legally binding manner or the amount is owed in accordance with the subsidy order. In the case of period-specific events, such as rent or insurance premiums that extend beyond the accounting period, the total amount is divided and accrued/deferred through specific accounts in the balance sheet.
- Secondly, the income statement also records those value flows that do not result in any direct flow of money and thus occur only in book-entry form. Examples of such events are depreciation among the expenses or withdrawals from provisions on the income side.

Fig. 3: Structure of the income statement



The income statement is drawn up in three stages, the first of which records the ordinary operating income and expenses. The result shows the increase or decrease in assets from this area. The second stage also takes into account the financial result, which compares the financial income with financial expenses, and produces the ordinary result as a whole. Finally, in the third stage, the extraordinary transactions are also recorded, as specified in the debt containment rule. The bottom line is the net surplus, which then enters the federal balance sheet as an increase or decrease in assets.

This covers the general layout of the income statement. In addition, there is the distinction between operating expenses and transfer expenses. This gives the administrative units sufficient scope to break down the functional expenses, which lie at the centre of operational management. The ordinary income from the first stage is differentiated into fiscal income and income from royalties and concessions as well as the payments for individual services provided by the Confederation (Fig. 3).

The income statement has this same layout at all levels of the federal administration. Differences exist in the details, which are adapted to meet the specific information requirements of the various management levels:

- At the overall federal level, the income statement is used for determining the net surplus, which enters the balance sheet as a change in assets, and for a financial analysis of the Confederation's activities. The income statement gives a condensed and consolidated overview of the course of business.
- At the level of the administrative unit and department, the income statement forms an important basis of (financial) management, which is increasingly run according to stand-

ard business practice. Cost transparency plays a major role here. At this level, the income statement is therefore more detailed, now also including – as another milestone in accounting and public management – the items for internal services. Hence the income statement shows clearly and fully how much it costs to run a federal office or department.

- Finally, the income statement also forms the basis for drafting the budget and the financial plan that parliament determines by credit appropriation for each administrative unit. As financial flows as well as profit or loss are of decisive importance at this policy steering level, the expenditure and revenue generated by capital investment must also be clearly shown. That is where the investment account comes in.

The statement of investments discloses the financial flows from investments

For the purpose of credit appropriation, each administrative unit prepares a statement of investments. The statement of investment shows the inflow and outflow of financial resources due to investment activity during the accounting period. (In the private sector, such financial transactions are recorded directly as an increase or decrease in assets and liabilities in the balance sheet.) The statement of investments shows spending on capital goods, loans, participations and capital investment contributions. These expenditures are compared with the revenue from the sale of capital goods and participations and the repayment of loans and capital investment contributions. The balance indicates the net financial flow from ordinary investment activity. Extraordinary investment revenue and expenditure is posted separately for debt containment management purposes. A general layout of the statement of investments is shown in Fig. 4.

Fig. 4: Structure of the statement of investments



At the overall federal level, it is not necessary to prepare a separate statement of investments. The investment expenditures and revenue form part of the financing and cash flow statement and are listed there in a separate section.

However, as investment expenditures and revenue are important for the appropriation of credits, they appear – along with the items from the income statement – in the account of the administrative units. This account is presented as the budget to the Parliament for consultation and approval and is therefore also called the credit view.

The credit view shows those items on which Parliament rules when approving the budget

The accounts of the administrative units comprises all the main items from the income statement and statement of investments. It is subdivided institutionally into departments and administrative units. Its purpose is, first, to render an account of the use of resources, and secondly, it serves as an instrument for the appropriation of credits and conveys the so-called credit view, i.e. it shows all the credit and income items of an administrative unit, on which the parliament rules within the framework of its budgeting.

The credit view thus provides the input for overall fiscal policy management and sets the financial objectives for operational management of the administrative units. Figuratively speaking, therefore, the credit view is the main rudder of the NAM. The other accounts serve only as instruments to inform about the situation and development of the federal budget.

With a view to ensuring efficient management and a transparent cost statement, it is important that all expenses, wherever possible, be allocated, managed and settled at the place of consumption. For this reason, certain credits are being decentralised or newly introduced. Specifically, three types of expenses not previously shown are now included in the budget and accounts of the administrative units, i.e.:

- Expenses for goods and services within the framework of internal service charges (e.g. IT services or rental of buildings and offices),
- Expenses for assets that are used decentrally but to date have been centrally allocated and managed for the entire federal administration (e.g. vehicles),
- Expenses that affect the income statement but only occur in book-entry form and do not induce money-flows (depreciation or provisions).

These changes also mean that parliament, in its budget consultation and approval, distinguishes between three different types of credits, i.e.

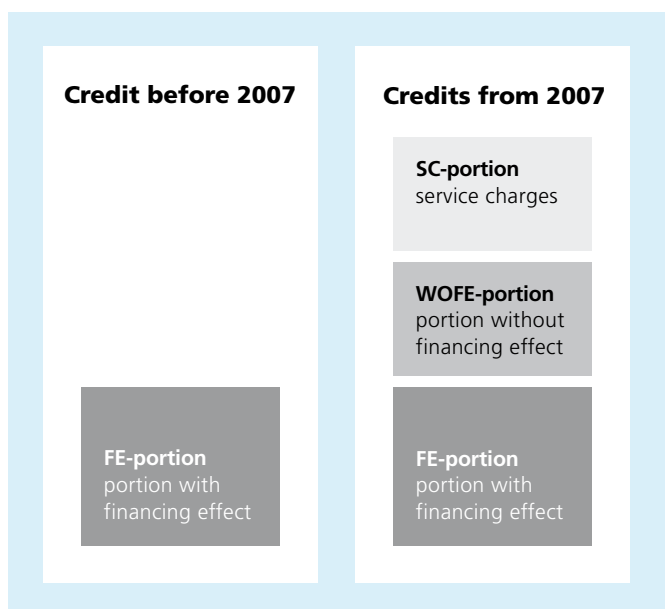
- items of financial consequence, which, as before, are associated with expenditure or income and are posted in the financing and cash flow statement (e.g. personnel, operating and investment expenditure),
- items of no financial consequence, which represent book entries only with no flow of money (e.g. depreciation or provisions),
- items for internal service charges, which despite being allocated with an effect on credits in the service users' budget, result only indirectly – at the internal service provider's end – in expenditure of financial consequence. The distinction is important for the overall control and for operational management.

The introduction of credits without effect on expenditure means that the budgets and/or accounts of the administrative units are extended in comparison with the old credit view, up to the extent of the book-entry-only items and that of the internal service charges (Fig. 5).

The balance sheet shows the size and structure of the assets and liabilities

The balance sheet provides information on the Confederation's asset and capital structure. The balance – the difference between the assets and liabilities – corresponds to a balance sheet deficit, or if positive, the equity.

Fig. 5: New types of credits in the budget and accounts of the administrative units



The layout of the balance sheet is largely unchanged. The subdivision of assets into financial and administrative assets – important with respect to law – has been maintained. This shows which items are used for cash or cash equivalents (financial assets) and which assets the Confederation needs to perform its tasks (administrative assets) – important information the parliament needs to know when deciding on the budget (see Fig. 6).

With the transition to business accounting and compliance with the IPSAS accounting standards, the balance sheet in the NAM provides more specific details about the Confederation's asset situation. It has become more meaningful and significant. The accounting policy for assets and liabilities have thus been adapted. The departure from the prudence concept, as set out in the Code of Obligations, to the more modern principle of a true and fair view of the asset, financial and earnings situation means that certain balance sheet groups have to be revalued, in some cases quite extensively.

The financing and cash flow statement

The financing and cash flow statement (FCFS) is the central information and controlling instrument for the overall management of the federal budget in terms of fiscal policy. The most important (and restrictive) objective of this management task is to balance expenditure and revenue over an economic cycle as required by the debt brake. Operational issues concerning the efficient use of resources, on which the income statement provides information, are of minor importance here.

Just like the financing statement in the old accounting model, the new FCFS conveys the cash view and is – contrary to the profit and loss view – the other side of the dual approach in the NAM. The FCFS collates and breaks down all the financial processes of financial consequence, i.e. in which there is a flow of money. It compares the expenditure and revenue, as recorded from the current business in the income statement, as part of investment projects in the statement of investments and, for instance, in debt financing in the balance sheet. Specifically, the FCFS provides information on three basic aspects:

- First, it shows where the funds flowing into the Confederation came from (source of funds).
- Secondly, it shows the purposes –broadly speaking for current expenditure, capital or financial investments – for which the Confederation has used funds (use of funds).
- Finally, it shows in its balance the extent to which the Confederation's cash and cash equivalents have changed overall during the accounting period (change in funds). An increase means that the Confederation has had more inflows than outflows, a decrease means the opposite. To enable parliament and the Federal Council to control fiscal policy in the context of the debt containment rule, the FCFS distinguishes between the financial result from ordinary and from extraordinary transactions. Likewise, it also shows the flows

of funds resulting from Treasury transactions, such as the increase of liabilities or the investment of financial assets.

Thus, it can be seen from the FCFS whether the ordinary transactions are balanced with respect to the debt brake and also whether, for example, a substantial increase in extraordinary expenditure was funded by a revenue surplus or by increased liabilities.

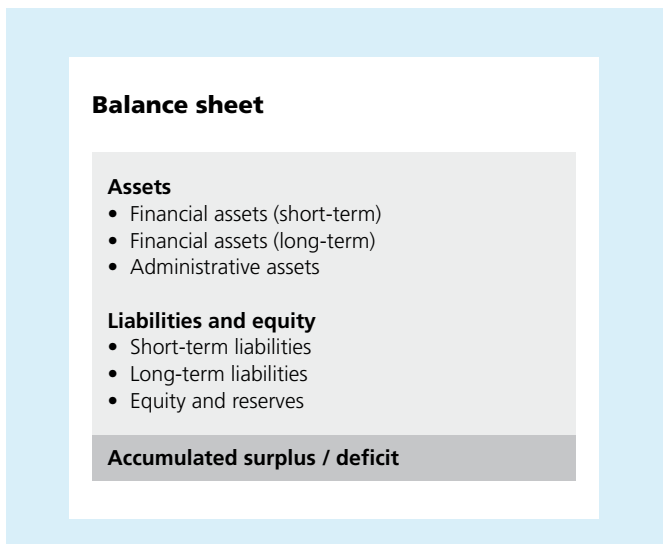
The FCFS thereby provides information on relevant facts for fiscal policy that should be known for the overall management of the federal budget, and ultimately implemented in the budget and financial planning. Fig. 7 shows its layout.

The FCFS is drawn up according to the so-called direct method: all flows of funds are directly taken from the individual financial items from the income statement, the statement of investments and the balance sheet. In doing so, the data from the administrative units' financial book-keeping is combined at federal level and prepared for the fiscal policy evaluation according to a functional point of view – political areas, tasks, measures. An important requirement for this direct procedure is the distinction between accounting items that are of financing effect and those which are not.

The standard schedule of accounts combines the components of the accounting model at all levels and organises the accounting system

The standard schedule of accounts is a fundamental administrative principle used in all accounting models and a decisive prerequisite for their consistency. In allocating an address – the general ledger account – for each entry booked, the standard schedule together with the derived chart of accounts organises and standardises the recording, preparation and presentation of financial data according to a uniform system.

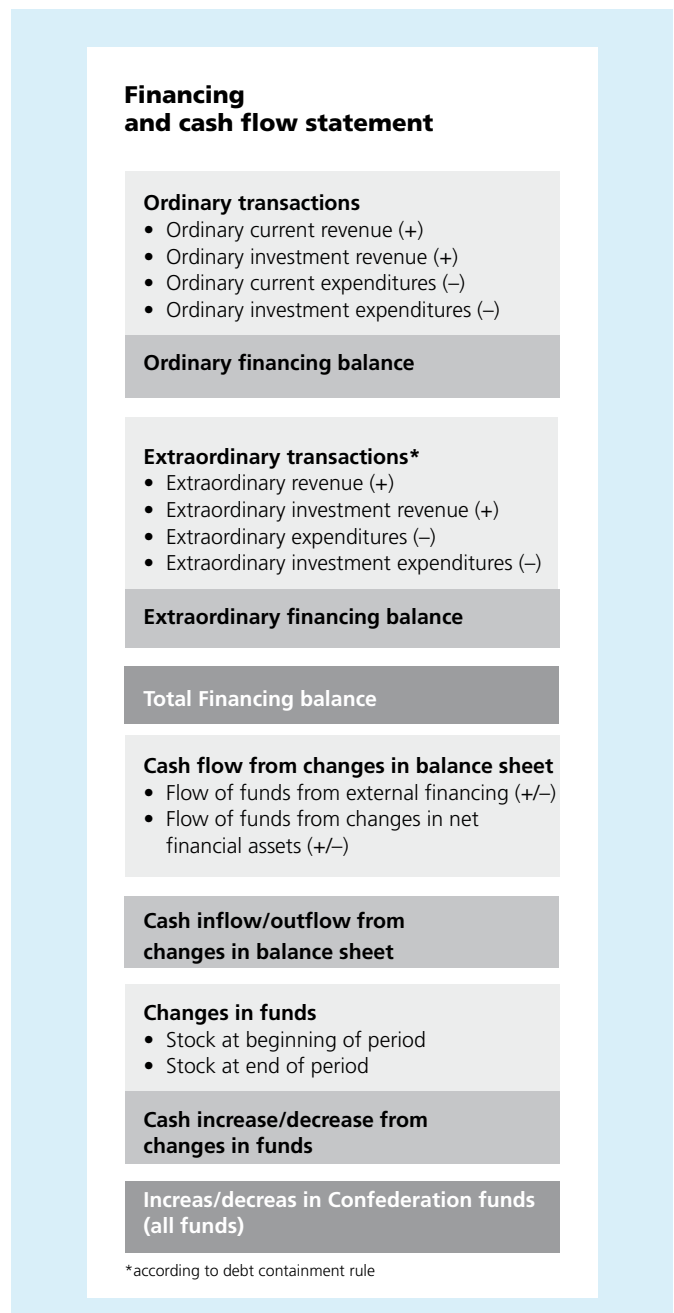
Fig. 6: Structure of the balance sheet



The structure of the standard schedule of accounts is determined by the layout of the individual accounts in the system. These, in turn, are determined by the information requirements of financial management and the accounting standards on which the accounting model is based, with respect to the comparability with other public institutions on a domestic and international level.

Account systems are structured hierarchically and can be presented in visual form as a multi-layered pyramid. The degree of detail increases from top to bottom: the lower the level, the more the accounts are fanned out by purpose, and the more specific

Fig. 7: Structure of the financing and cash flow statement (FCFS)



the information they contain. Basically, the NAM distinguishes between three levels:

- *Standard schedule of accounts of the Confederation:* The standard schedule of accounts comprises the account groups in the top layers of the pyramid. At the very top are two account categories of the balance sheet (assets, liabilities), the income statement (expenses, income) and the statement of investments (investment expenditures and revenue).
- *Master chart of accounts:* The master chart of accounts is one level down. This marks the lowest degree of detail of the Confederation's financial reporting and, at the same time, is the lowest common level of the various administrative units. The master chart of accounts is used to derive the charts of accounts of the administrative units.
- *Charts of accounts of the administrative units:* The charts of accounts of the administrative units further divide up the master chart of accounts. The specific tasks of the administrative units play an important role here. Thus, the charts of accounts at this level no longer have the same coverage in all units. The accounting system ends at the level of the general ledger account, where the individual financial procedure is recorded.

Overall, the expense and income items and the investment expenditures and revenue are divided on the basis of three criteria: by the account groups of the standard schedule of accounts, by the administrative units, and if applicable, by measures and purpose.

Fig. 8 on page 14 gives an overview of the account groups at the top level of the pyramid for the balance sheet, the income statement and the statement of investments. However, there is no need for any «own» accounts for the financing and cash flow statement: this information is not recorded in the financial book-keeping but is derived from the balance sheet, the income statement and the statement of investments via allocation rules in the system.

Apart from these statistical structural elements – basic components, layout and relationships – on which the system is based, the NAM also needs a series of rules that govern the dynamic elements, i.e. the processes. These rules are laid down as the budgeting and accounting principles and form the subject of the next chapter.

Fig. 8: Structure of the standard schedule of accounts

Balance sheet		Income statement		Statement of investments	
1 Assets	2 Liabilities	3 Expenses	4 Income	5 Investment expenditure	6 Investment revenue
10 Financial assets	20 Liabilities	30 Wages, salaries and employee benefits	40 Tax income	50 Tangible assets, inventories	60 Decrease in tangible assets
100 Cash and cash equivalents	200 Current liabilities	31 Supplies and consumables used	41 Royalties and concessions	52 Intangible assets	62 Decrease in intangible assets
101 Receivables	201 Payables	32 Defense expenses	42 Compensations	54 Loans	64 Loan repayments
102 Short-term financial investments	204 Accrued expenses and deferred income	33 Depreciation and amortization	43 Other income	55 Financial participations	65 Disposal of financial participations
104 Prepaid expenses and accrued income	205 Short-term provisions	34 Financial expenses	44 Financial income	56 Investment contributions	66 Repayment of investment contributions
107 Long-term financial investments	206 Long-term financial liabilities	35 Net-expense for earmarked funds in liabilities	45 Net-revenue from earmarked funds in liabilities	58 Extraordinary investment expenditures	68 Extraordinary investment revenue
109 Receivables from earmarked funds in liabilities	208 Long-term provisions	36 Transfer expenses	48 Extraordinary income	59 Balance sheet carry-over	69 Balance sheet carry-over
14 Administrative assets	209 Payables to earmarked funds in liabilities	38 Extraordinary expenses			
140 Tangible assets	29 Equity				
141 Inventories	290 Earmarked funds				
142 Intangible assets	291 Special funds				
144 Loans	292 Reserves from global budget				
145 Financial participations	295 Revaluation reserves				
146 Investment contributions	296 Revaluation reserves				
	299 Balance deficit				

3. Budgeting and accounting principles

Budgeting, along with accounting and the preparation of the annual financial statements, are the three main processes in the federal financial management system. They conclude either with the adoption of the budget and the financial plan or the approval of the annual financial statements by parliament. From a financial point of view, these processes are controlled via a series of principles, which are needed to ensure the reliability, transparency and continuity of the budget and accounts and form a prerequisite for comprehensive, high-quality financial reporting. In particular, these govern the posting and preparation of financial data in the individual administrative units and in the central accounting service.

Although budgeting principles refer primarily to drawing up the budget, and accounting principles to the accounting and preparation of annual financial statements, they are applicable in general for all processes. Indeed, the principle of comparability requires that the budget and accounts correspond in terms of form. This is why the «budgeting and accounting principles» are so often mentioned in the same breath and used as a general term for all processes. Nonetheless, the «accounting principles» and the «accounting policy» are hierarchically subordinate. These are derived from the budgeting and accounting principles and specify in concrete terms their application in their task areas. Fig. 9 shows the relationship.

Budgeting principles

Budgeting principles are necessary to enable parliament, its committees as well as the government and its administration to perform their decision-making and steering function. They form a rigid framework for tight financial management. For the budget, the supplements and, logically, the accounts, the four existing principles still apply. These have proven themselves in practice and meet the demands of the NAM:

- *Gross presentation:* Income and expenses, assets and liabilities as well as investment expenditures and revenue are posted separately from each other, i.e. without reciprocal offset.
- *Completeness:* The budget should list all presumed income and expenses as well as investment expenditures and investment revenue. These must not be directly deducted under provisions and special financing.
- *One-year basis:* The accounting period for the budget (and the accounts) corresponds to the calendar year. Unused credits are forfeited at the end of the financial period.
- *Specification:* Income and expenses and also investment expenditures and revenue are broken down into administrative units, type layout of the standard schedule of accounts and, if applicable, measures and purpose. A credit may only be used for the purpose specified in the approval. If several administrative units are involved in financing a project, one of these should be designated the leading administrative unit, which should disclose the overall budget.

Accounting principles

The accounting principles govern, in particular, the preparation of the annual financial statements. Their objective is to present a «true and fair view» of the earnings, financial and asset situation (as defined in the IPSAS). The most important principles of accounting, and logically also for the budget, are as follows:

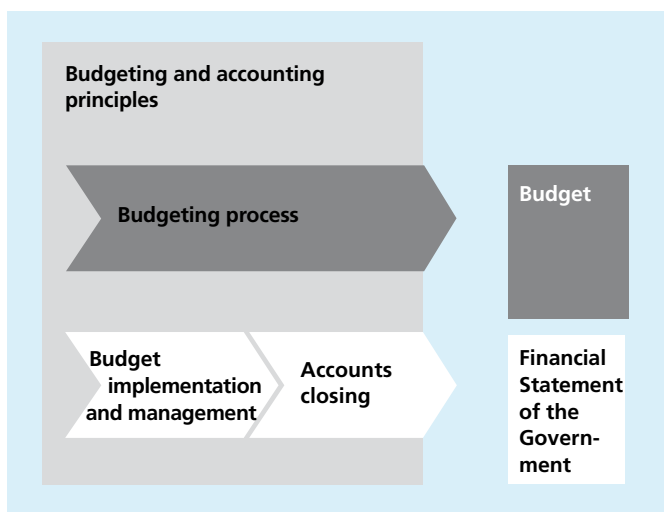
- *Materiality:* All information of significance in making a rapid and comprehensive evaluation of the asset, financial and earnings situation is disclosed.
- *Understandability:* The information must be clear and comprehensible.
- *Continuity:* The principles of budgeting, accounting and financial reporting must remain unchanged for as long as possible.

The accounting principles form the basis for numerous other principles, for example, in the area of book-keeping or accounting policy.

Book-keeping principles

Book-keeping in the federal administration is generally carried out on a decentralised basis within the individual administrative units. Explicit rules are required to ensure that all mandatory entries are correctly made and processed. These book-keeping principles are derived from the accounting principles and form an important prerequisite for the reliability and transparency of the accounting. The following three principles are of particular importance:

Fig. 9: Budgeting and accounting principles as process rules



- **Accuracy:** The transactions to be entered are posted systematically, similarly and consistently.
- **Timeliness:** The book-keeping must be as up to date as possible, and events should be recorded in chronological order. In particular, monetary movements must be updated daily.
- **Verifiability:** All entries booked must be verifiable with supporting evidence. This requirement refers also to charts of accounts, allocation guidelines and manuals.

To allow these principles to be observed, the Confederation maintains an Internal Control System (ICS) for quality assurance. The tools of the internal control are enshrined in the Financial Budget Ordinance. The ICS is particularly important because the Confederation's accounting in the NAM is largely based on the financial data recorded decentrally by the administrative units. The quality of the financial statement of the Confederation thus directly depends upon the quality of the financial statements at this level.

Importance of the accounting policy for the annual financial statements

The accounting policy elucidates the accounting principles where there is a change in assets. The accounting principles help in the decision of whether an event is to be carried as a new liability (i.e. expensed) or as an increase in assets (i.e. capitalised) in the balance sheet. This decision determines the valuation. The valuation principles determine the value at which balance sheet items should be posted. They thus include the principles of depreciation and value adjustments.

Compliance with IPSAS simplifies the practical application of the accounting policy. As far as *accounting* is concerned, the following principles apply:

- Assets are capitalised if they can be used to derive an economic benefit or serve to meet an official task, as long as their value can be reliably determined and they meet a certain minimum value (capitalisation limit). This limit is CHF 100,000 in the case of real estate and intangible assets and CHF 5,000 for other tangible assets, such as vehicles.
- Current liabilities are expensed if they are likely to result in an outflow of funds, as are provisions for liabilities that refer to a past event and will most likely result in an outflow of funds. The expensing limit here is CHF 500,000.

With respect to the *valuation*, the main principles generally call for an individual valuation per item and require that depreciation and value adjustments be made in the case of wear and tear and permanent loss of value. The following standards apply in particular:

- Financial assets are capitalised at fair value, administrative assets at cost.
- Liabilities are expensed at face value. Provisions must be valued at best estimate.

The use of IPSAS-compliant accounting policy changes the value of individual balance sheet groups, in some cases quite substantially. For this reason, the Confederation's assets and liabilities are being restated to the equivalent value at the time of introduction of the NAM and posted in the opening balance sheet.

4. Budget management

Based on the dual control principle, the administrative units are now managed using the income statement, the statement of investments and operating cost accounting. The business aspect thereby gains in significance. In terms of financial management of the entire federal budget in accordance with the debt brake and (fiscal) policy criteria, the financing statement remains the focal point. Even under the NAM, the three-year financial plan remains the central fiscal policy steering instrument of the Federal Council and parliament. This chapter looks in further detail at the Confederation's tasks in this respect.

Overall fiscal policy management at federal level

One of the Confederation's leading objectives in fiscal policy is to balance revenue and expenditure over time. This principle is enshrined in the constitution (Art. 126, para. 1 of the Federal Constitution of the Swiss Confederation). The debt brake is an instrument that – based on the expected revenue and the state of the economy – lays down the Confederation's maximum permitted spending. The financing statement remains the central budget management instrument at the federal level, even with respect to two further arguments. First, the federal budget is a typical transfer budget, where subsidies and contributions to other budgets account for a large portion of the budget. On the other hand, expenditure for own functional areas is relatively low. Secondly, macroeconomic analyses of fiscal policy and its impact as well as issues of stability policy are usually based on the financing approach. From this point of view, it is irrelevant whether flows of funds occur as current expenditure or as investments: in principle, they are all treated the same for the fiscal policy management of the federal budget.

Despite the central role of the financing approach, the profit and loss view cannot be ignored at the federal level. This provides a consolidated overview of value erosion or creation by the Confederation during a certain period and shows, from a business point of view, which funds the Confederation uses to perform its tasks. Moreover, in the NAM, the income statement forms the basis for calculating the financing and cash flow statement.

Apart from the debt brake, also payment ceilings and credit lines as well as the spending cap represent other important tools used for overall fiscal policy management. However, these do not change with the introduction of the NAM: thus, payment ceilings and credit lines continue to be of relevance for expenses and investments of financial consequence, though not for depreciation, value adjustments or internal service charges. The so-called spending cap, which requires a qualified parliamentary majority for subsidy requests, credit lines and payment ceilings if certain limits are exceeded, is also unchanged.

The three-year financial plan, which is drawn up annually together with the budget, remains under the NAM an essential instrument for strategic management according to political areas, measures and programmes. The financial plan is closely related to the budget: the first year of the financial plan serves as the ba-

sis for the budget of the following year. As a form of early warning system, the financial plan shows:

- whether there is sufficient scope for financing planned projects, which have political priority,
- the direction in which the federal budget is moving under certain assumptions on future economic and political developments, and
- which measures have to be taken, if necessary, to balance the budget in the medium term.

At the start of each legislative period, the Federal Council submits to the newly elected parliament, as part of its legislative planning, a special four-year legislative financial plan instead of the usual financial plan.

Depending on the requirements of the debt brake and the targeted public expenditure and tax ratios, the Federal Council specifies in the financial plan the extent to which overall spending is to be increased in the medium term. It therefore also sets priorities in the Confederation's task areas and allocates the required funds.

With the introduction of the NAM and as part of a systematic review of the task portfolio, the functional classification of the federal budget, which groups together the various forms of expenditure by task type, has been adapted. This was done on the basis of the international classification standard COFOG (Classification of Functions of Government). Consequently, the financial plan is now subdivided into 13 task areas with a total of 43 tasks. The individual tasks are outlined in the annexe to the financial plan: for each task area, the Federal Council presents the financial trends, targets and strategies as well as the main reform projects and provides a short commentary on how the tasks have evolved during the period of the financial plan. This brings fiscal and issue-related policy in closer contact. Under the NAM, the presentation of the budget by task area concentrates on the expense items of financial consequence and the investments.

Financial management at the level of the administrative units

Contrary to the management at the federal level, the income statement and the business point of view are at the forefront in the case of the administrative units. Thus, parliament approves the income and expenses of each administrative unit in the budget. Nonetheless, fiscal policy and therefore the financing approach also play a considerable role at this level. To ensure that the expenditure of financing consequence can be made and managed in accordance with the debt brake, the investment expenditures and revenue of each administrative unit must be reported and approved separately.

Of course, not all administrative units have the same information requirements. Depending on the mandate, they are involved to a greater or lesser degree in political management, work to a greater or lesser degree with operational autonomy, can differentiate their services as products to a greater or lesser degree. The layout of the cost accounting must address these differences. The NAM thus makes a distinction between three different types of cost accounting (Fig. 11):

- The *basic type* must be used by all administrative units as a minimum standard. This is sufficient for those administrative units that are managed primarily via legal tasks and political mandates and thus have very little operational autonomy. Usually their services cannot be clearly demarcated as separate products, and there is very little scope for management by performance targets. This is the case for units with a team or coordination function, e.g. a general secretariat. For such units, the cost accounting is used in its basic format, with costs broken down into cost centres (organisational units such as sections or departments) and projects.
- The *simple cost accounting* is suitable for administrative units that have a certain degree of operational autonomy and therefore can largely determine by themselves how to achieve their performance targets. This performance-oriented management model requires a high number of clearly definable and measurable services. The simple cost accounting allocates costs to cost centres and the defined cost units (products, projects).
- The *extended cost accounting* is designed for those administrative units that have a large degree of operational autonomy

and primarily provide chargeable services for the federal administration or commercial services on the open market. In this case, the cost accounting also forms the basis for precise price calculations for services to internal and external customers.

The departments decide, in agreement with the Federal Finance Administration, which cost accounting standard the administrative units should use.

Internal service charges within the Confederation

As an important contribution to cost transparency in the administrative units, the NAM now highlights those costs and returns that result from the exchange of goods and services within the Confederation. This means that the charging of internal services with an effect on credits is being introduced throughout the federal administration. In principle, internal services are charged on a full-cost basis, without any profit or risk mark-up. To minimise the bureaucracy involved, internal charging is only carried out for those services meeting the following criteria:

- *Materiality*: The services involve considerable amounts, reaching at least CHF 100,000 in the accounting year.
- *Influential nature*: The service user can, through its actions, influence, i.e. manage the volume and quality and thereby the costs of the services it receives.
- *Commercial nature of the service*: Services are chargeable when the service user could alternatively procure the service outside of the federal administration. This provides for a price

Fig. 11: Three standards of cost accounting

	Basic	Simple	Advanced
Outputs of Administrative unit	Staff and coordination functions	Identifiable, measurable, non-marketable services	Marketable services, internally chargeable services
Operational autonomy	Low	Medium	High
Management	Policy mandates, statutory tasks	Outcome-oriented	Outcome-oriented, revenue-oriented
Cost account information	Cost centres, certain products	Cost centres, products, projects, approximate pricing	Cost centres, products, projects, precise pricing
Examples	General secretariats, SECO (State Secretariat for Economic Affairs)	Federal chancellery	MeteoSwiss Swisstopo

comparison with external suppliers and exerts more cost pressure on the service supplier.

Services that meet the above criteria and are therefore chargeable are listed in a central database of services. This ensures that the administrative costs of internal service charges do not outweigh the benefits. The main services subject to internal charging are in the areas of IT, office and plant real estate, and logistics.

Budget management with FLAG

In parallel with the introduction of the NAM, the FLAG management model (German acronym for management by performance mandate and global budget) is being substantially expanded in the federal administration to other administrative units. The FLAG programme has been in operation since 2002 – following a pilot phase over a number of years – and now has a permanent place in the Confederation’s public management as an independent management model.

The FLAG management model brings some additional elements to the conventional principles of budget management. The main focus is on the outcomes and outputs of government activities, decentralised responsibility for the use of resources, and the economic efficiency of public management. The FLAG model has the following characteristics:

- *Performance contract for strategic management:* The Federal Council manages the administrative unit via a performance contract covering several years. Here it defines the strategic direction, the requirements for outcomes and outputs, and the financial framework. The performance contract is issued by the Federal Council following consultation with the relevant committees from the National Council and the Council of States and specified in an annual performance agreement between the department and the administrative unit. Strategic management is thus reinforced at a political level, whereas the manner in which the services are rendered is delegated to the administrative unit. In other words, the Federal Council and the parliament decide on «what», i.e. the quality and priorities, of public management, whilst the adminis-

trative unit is responsible for implementing the political objectives.

- The *global budget* is an all-in budget for the administrative unit’s own area, of which the FLAG agency freely disposes. Parliament specifies the expenses and investment expenditure, the budgeted income and investment revenue in two separate budgets, taking the output and outcome targets into account in doing so. Moreover, the FLAG agency is permitted to exceed the global budget under certain circumstances. This is authorised if there is an unexpected increase in demand and more services can be sold than originally budgeted. Here, the budget surplus must be at least covered with the additional income, i.e. the net surplus generated must be at least as good or better.
- *Steering via product groups:* Parliament not only steers FLAG agencies via the global budget but also directly influences the planning of important product groups. The rules here specify that the FLAG agencies maintain scope for action for the efficient use of funds.
- *Creation and use of reserves:* As part of the financial statement of the government, the FLAG agencies must report on the output and outcome targets reached and the accounting result. This is used as a basis to determine the extent to which the conditions for creating reserves have been met. Reserves can subsequently be used to fund expenses or investments, subject to certain allocation conditions. The possibility of creating reserves serves as an incentive for cutting costs in service performance.
- *Outcome-oriented controlling* supports FLAG public management. This provides regular information on target progress and highlights to the manager any deviations requiring corrective action. Reporting to the Federal Council and to parliament is in two stages: annually within the framework of consultation on the budget and approval of the financial statement of the government and at the end of each performance contract period, when there is a detailed report on target accomplishment.

5. Financial reporting

The modular structure of financial reporting addresses the different information requirements.

Financial reporting seeks to present a true and fair, clear and understandable view of the Confederation's earnings, its financing situation and its assets and liabilities. In compliance with modern business practice in the private sector, the financial statements must be fully transparent, disclosing all significant facts. In doing so, the Confederation wants the supervisory body, stakeholders and other interested parties to be able to understand the financial situation in full and form an independent opinion.

Not all parties addressed require the same information in the same level of detail. The Confederation thus covers the various information requirements with a modular reporting system that enables individual stakeholders to easily find the information they require. The financial reports published in German, French and Italian offer members of parliament, the parliamentary

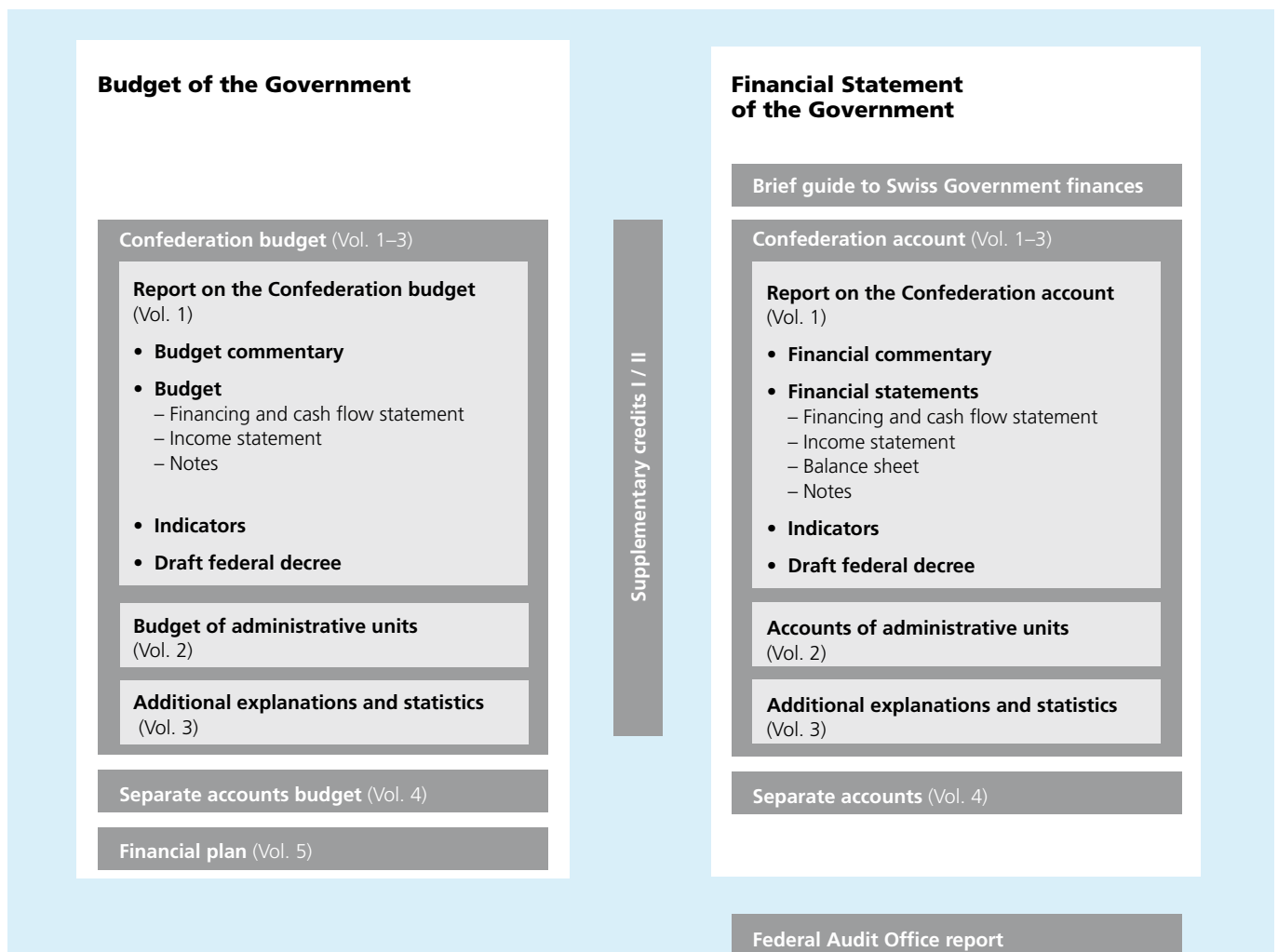
committees, the government and its administration, the media and the public a brief initial overview and access to additional information, if necessary.

The reporting is conducted through a number of products, the main ones of which are the budget and the financial statement of the government, with the separate accounts, the financial plan and the reports on supplementary credits as additional parts. The financial statement of the government is completed with the report by the Federal Audit Office and the brochure «Brief guide to Swiss Government finances». Fig. 12 gives a complete overview of the financial reporting products.

The individual products

Within the framework of its financial reporting, the Confederation currently publishes seven products, the main contents of which are outlined here:

Fig. 12: Financial reporting products



- The *federal budget* gives a condensed and transparent overview of the financial and earnings situation in Vol. 1. The notes are of particular importance, as these contain additional information required for interpreting the numbers. Vol. 2 contains all information associated with the granting of credits, including the budgetary credits and credit lines as well as the payment ceilings; the synopsis at federal level provides an overview of the total volume of credits. The credits for internal service charges are fully posted and not eliminated. Vol. 3 gives a more in-depth description of the individual revenue and expenditure items and explains cross services and FLAG management. The statistics section gives more detailed financial data in a multi-year comparison.
- The *reporting of the Confederation account* is structured in the same way as the budget. In addition, Vol. 1 presents the balance sheet and the associated disclosure obligations. Specifically, the financing statement is supplemented by the flow of funds from changes in the financial assets and liabilities, and the notes are expanded to include a detailed description of the accounting policies. Likewise, items that cannot be entered in the balance sheet, such as contingent liabilities and assets or events occurring after the balance sheet date, are included. Vol. 2 shows the accounts of the administrative units and reports on the extent of use of budgetary credits and credit lines, with a detailed explanation of the reasons why credit lines have been overdrawn or not used up. Vol. 3 provides an additional explanation of current issues and developments in the financial statement of the government as well as detailed financial statistics together with comparisons over time.
- The *separate accounts* within the framework of the budget and the financial statement of the government concern the Swiss Federal Institute of Technology (ETH), the fund for major railway projects and the Federal Alcohol Administration. The budget and annual financial statements are drawn up by all three institutions according to standard business practice and management standards.
- The report on the *multi-year financial plan* covers four main chapters, «Scenario and results», «Figures», «Potential additional burdens» and «Summary and appreciation». The actual report section contains just the most important facts, with additional information available in the notes. Based on the task portfolio, standardised overviews are given here for each of the 43 tasks from the function-specific classification and the most important revenue items. Subject-specific and financial planning are thus brought closer together and may be ideally harmonised in political steering.
- The *reports on the supplementary credits* comprise three sections, «Comments on the supplementary credits», «Figures and supporting evidence» and «Explanations».
- The brochure on *brief guide to Swiss Government finances* is published annually together with the Confederation account. This is primarily aimed at members of the media and the public who are interested in reading a synopsis of the Confederation's financial situation. The main section is a comparison with the previous year's figures.

6. Out with the old, in with the new

Switching from the former financial management system to the Confederation's NAM inevitably means a break in the continuity of accounting, thus limiting comparability with the figures from the old system. Some of the changes are quite substantial, for instance in the balance sheet, the income statement, and especially in the credit view, or the accounts of the administrative units, which have a different structure and new items. Only the results of the financing statement can, in principle, be compared with those of previous years.

In order to draw up the very first budget under the new model, all the financial events and processes from previous years have to be restated to match the rules for the new model. Thus, to adjust the balance sheet, a complete restatement will be carried out at the time of the switchover, with all balance sheet items being revalued in accordance with the new principles. Secondly, to ensure that the credit view, i.e. the budget or the accounts of the administrative units, can be compared with previous years, the old credit items have to be regrouped in accordance with the classification rules and reallocated («recoded»). The process and result of restating the balance sheet and the regrouping of the credit view are outlined below. The process of creating the new income statement out of the old financing statement is also shown in three easy stages.

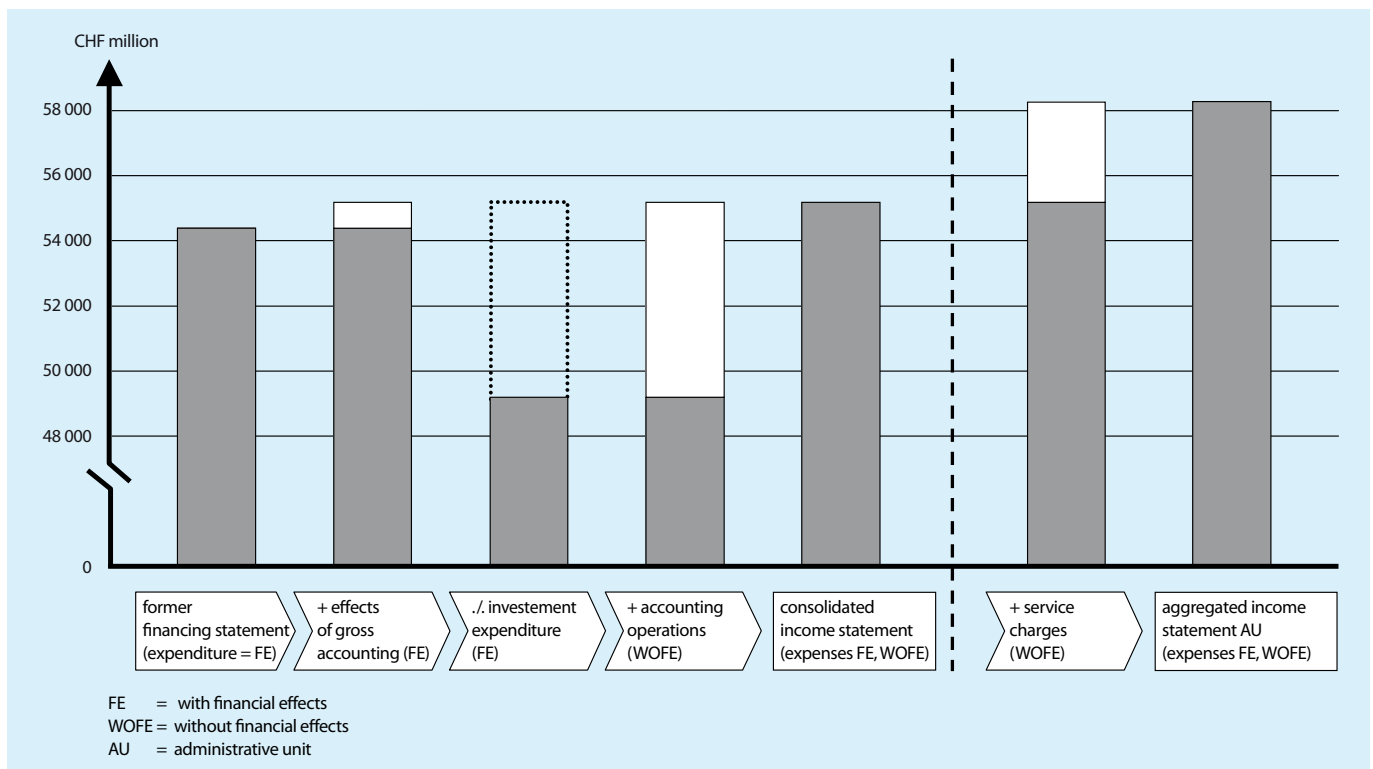
New accounting policies change the balance sheet

In compliance with IPSAS, the balance sheet is now drawn up in accordance with the principle of a true and fair view. The old prudence concept, which tended to favour the creation of hidden reserves, has been discontinued. This calls for a systematic restatement of all balance sheet items in accordance with the new accounting policies (see Chapter 3). This does not affect the structure of the balance sheet, which remains more or less the same.

At the time of this brochure going to press, work on restating the balance sheet is currently underway. However, for the drafting of the first budget according to the NAM, it is important that the various balance sheet items on the assets side have already been restated as a basis for depreciation. The results show that it is mainly the administrative assets, specifically real estate and financial participations, which are substantially revalued.

The objective of the balance sheet restatement is to present all valuation adjustments resulting from the application of the new accounting policies in the opening balance sheet of 1 January 2007. The valuation adjustments are therefore not made via the income statement but directly dealt with via the balance sheet deficit, or equity. They therefore have no effect on income and do not influence either the old or the new income statement.

Fig. 13: From the old financing statement to the new income statement – and the credit view



The opening balance sheet will be drawn up in the course of 2007 and audited by the Federal Audit Office. It will be presented to parliament together with the 2007 financial statement of the government in the spring of 2008.

From the old financing statement to the new income statement and the credit view

In the NAM, the income statement takes the place of the financing statement as the basis for the credit view or the account of the administrative units. To demonstrate the transition from the old to the new credit view, the following paragraphs outline the fundamental differences between the old financing statement and the new income statement or the new credit view. Three corrective steps are made to reach the income statement, with one more for the credit view. These are shown in Fig. 13, taking as an example the figures from the 2007 budget announcement:

- Starting with the old financing statement, the first step is to address the expansionary effects resulting from use of the gross principle. The gross reporting of certain new items – in particular, the bad debt losses in value-added tax and the rental expenses for the Swiss Federal Institute of Technology (ETH) buildings – results in a symmetrical expansion of the income and expenses of financial consequence, amounting to some CHF 800 million.
- From this amount, in the second step, the investment expenditure of CHF 6,445 million is deducted. By definition, investment expenditure is not part of the income statement; only the associated depreciation has an effect on income.
- In the third step, all the events of no financial consequence are added up. These mainly consist of depreciation and accruals and deferrals, i.e. book-entry items that affect income in accordance with business-oriented accounting. These amount to a total of CHF 6,535 million.

Following these three adjustments, the transition to the consolidated income statement is complete. To obtain the credit view, a fourth step is necessary:

- All income and expenses from the internal service charges are added to the consolidated income statement. These items are not of financial consequence but do have an effect on credits. While these amounts are completely disclosed in

the combination of all income statements of the administrative units, they are eliminated as double entries in the Confederation's consolidated income statement.

Recoding of previous years' figures makes the old and new (almost) comparable

After the recoding, the items from the old financing statement are expressed in the structure of the new credit view. The objective is to make the pre-NAM figures from the budget and the accounts directly comparable after the switchover. The recoding thus goes considerably further than shown in the previous section, which outlined the transition from the old financing statement to the income statement using entire expenditure or expense groups.

As a result of the recoding, the 2007 budget of the administrative units (Vol. 2 of the financial reporting) will also list the figures from previous years in the new layout. This will provide for comparisons over time, subject to the following technical restrictions:

- Comparisons are unreservedly possible in the case of budget items of financial consequence, where the old budget structure corresponds one-to-one to the new structure.
- If this direct correspondence is not possible, the old sections are broken down into several new credit items. For example, the old sections «Third-party services» and «Other operating expenditure» are allocated proportionately to the three new credit items «Other personnel expenses», «Consulting expenses» and «Other operating expenses».
- The application of the new accounting principles (e.g. increasing the capitalisation limits) results in, specifically in IT expenditure, shifts between expenses and investment credits, which are not taken into account in the recoding.

In general, it should be noted that, in some cases, the switch in posting rules from the financing approach to business-oriented accounting permits only a limited comparison between old and new, if at all. Whilst there are major handicaps to comparing the items of operating expenses, for instance, the comparability of transfer payments (subsidies and contribution to other budgets) is generally assured. Notes in this respect are given in the tables.

7. Outlook

The NAM brings greater depth and scope to the Confederation's financial management system. At the technical level, only very few components have been kept in their old form. And very few public servants will not be affected by the NAM in some way or another, even if it is only through their superiors spending more time on controlling and book-keeping. Undoubtedly, every administrative unit will feel the introduction of the NAM throughout the entire federal administration.

Obviously, a reorganisation project of this character and magnitude cannot simply be set in motion and then brought to a close. In this respect, the introduction of the formal structure of the NAM, as described in this brochure in the form of new components, process rules or steering principles, is merely one milestone – albeit an important one – in a process of adaptation, continuous improvement and ongoing development. The following three examples serve to clarify this further.

In use the NAM will first have to prove its worth on a large scale as a «living object». Those who work with the NAM – from accountants to members of parliament – will have to get used to working with the new tools, processes and technical terms. Sound training and introductory courses will support them. There is no substitute for hands-on experience, however, and it is only when they start using the model in practice that they will discover points – of greater or lesser importance – on which it can be improved. Attentive communication and careful co-ordination within and between the administrative units is par-

ticularly needed at this stage of acquiring practical know-how to help the NAM become an effective tool in an ongoing learning process.

Further developments are also underway at an institutional level. For example, a consolidated annual report is to be drafted and published that will also include those organisations which, although legally hived off, are closely associated with the Confederation in economic terms such as the Swiss Federal Institute of Technology (ETH). The consolidated view of this «Federal Public Administration» is expected to produce informative additional details about federal finances as a whole. Likewise, the expansion of internal service charges within the federal administration will be examined. This is expected to further promote cost awareness and cost transparency with appropriate incentive mechanisms and new information instruments.

The last point refers to what is perhaps the most important process to have been initiated in recent years in the management of increasingly scarce resources and is now being continued with the introduction of the NAM: what is meant here is the change in the perception of costs and outcomes in public management, the evolution from pure credit management to business management, i.e. a fundamental change in the minds of those managers who have the power to shape the organisational culture in the federal administration. After all, the NAM is not merely a system of rules and tools but a complete management approach and way of thinking.

8. Glossary

Accounting

Management of the accounts, specifically of accounts receivable and accounts payable.

Accounting policies

General instructions for conducting the accounting. The purpose is to ensure the accounts rendered are complete and verifiable and to prevent any arbitrariness in the booking of business transactions.

Accrual accounting

Commercial transactions are recorded at the time at which they actually occur and not when payment is made or received. They are entered in the period to which they are to be attributed and posted at the end of this period.

Accrual basis

See «Accrual accounting».

Accruals and deferrals

Booking of expenses and income at the time they are incurred.

Administrative unit

An office or agency of the Confederation.

Balance sheet (statement of financial position)

Part of the annual financial statements of the government. A comparison of assets and liabilities posted on a specific cut-off date. Surplus assets form the equity, surplus liabilities a balance sheet deficit.

- Structure of assets: financial assets, administrative assets and special financing.
- Structure of liabilities: short-term liabilities, long-term liabilities, special financing and equity/balance sheet deficit.

Budget

The budget contains the budgetary credits for expenses and investment expenditure and the budgeted values for income and investment revenue.

Budget implementation

Implementation of the administrative mandate with the help of the budget approved by parliament by the way of a federal order.

Budget management

Implementation of the public mandate with the budget approved by parliament in a federal resolution.

Budgeting principles

General guidelines to be followed in drawing up a budget. The purpose is to ensure a uniform budget and therefore also to harmonise the appropriation of credits.

Budget process

Sequence of events involved in drawing up the budget and the financial plan in which the administrative units, departments, the Federal Council, the parliamentary financial committees and the parliament itself are involved hierarchically from the bottom up.

Business-oriented principles

See «Accrual accounting».

Capitalisation principle

Rule specifying the conditions under which investment expenditure (receivables, tangible assets, etc.) is reported in the balance sheet, i.e. capitalised. The following criteria must be met cumulatively:

- cost-effective use or performance of public tasks
- reliable assessment of value

Chart of accounts

Outline of the account structure down to the level of individual accounts.

COFOG (Classification of Functions of Government)

Internationally recognised classification of public expenditure by functional area.

Consolidated annual financial statements

Presentation of the Confederation's asset, financial and earnings situation, including that of institutions closely associated with the Confederation. The assets in the balance sheets and income statements of the individual units are added together and all reciprocal relationships eliminated (i.e. presented as if one unit).

Contingent liability

a) A potential obligation (e.g. guarantee) that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control. Contingent liabilities are not posted in the balance sheet but are disclosed in the notes.

b) A present obligation (e.g. surety) that arises from past events but is unlikely to result in an outflow of funds or the amount of the obligation cannot be measured with sufficient reliability. These, too, are not posted in the balance sheet but are disclosed in the notes.

Continuity

Long-term compliance with the accounting and budgeting principles and the financial reporting structures. A prerequisite for making reliable comparisons. Any changes required are disclosed transparently.

Cost accounting

Component of (internal) accounting. Calculation and reporting of costs by cost type, cost centre and cost unit as well as the operating result.

Cost centre

A cost centre is a subdivision of an organisation with which costs are identified and which is separate in terms of location, function or billing. Cost centres are generally formed on the basis of the organisation chart.

Cost unit

A cost unit is an entity to which costs are allocated in business-oriented cost accounting. Cost units are typically individual or appropriately combined products, services or projects.

Credit

Authorisation of expenses and investments for one or more projects up to a certain maximum amount.

Credit freeze

The Federal Assembly can partially freeze the budgetary credits and credit lines as well as the payment ceilings authorised in the federal budget resolution.

Credit line

Authorisation from parliament to enter into financial commitments for a given project or a group of related projects up to an authorised amount.

Credit types

The various types of credits are steering instruments of the Federal Council and parliament, divided into – depending on their content and time period – budgetary credits, credit lines and multi-year payment ceilings.

Credit view

The credit view is used to assign funds on the basis of political points of view and for the overall public management as well as a basis for granting credits by parliament. The credit view is presented as part of the financial reporting in Vol. 2 at the level of the administrative unit, department and, as a whole, for the entire federal administration. The credit view corresponds in form to the accounts of the administrative units.

Depreciation

A decrease or loss in value of tangible assets or of items of intangible assets (amortisation). A distinction is made between losses in value that are scheduled and those that are not.

- A scheduled loss in value (depreciation), which is applied over the estimated useful life of the asset on the basis of the loss in value incurred through wear and tear or age.
- When the loss in value is unscheduled, this is known as a write-down, which is a permanent loss in value not caused by normal utilisation.

Debt

The concept of debt as defined in the Maastricht Treaty corresponds broadly to the sum of the Confederation's liabilities less provisions and accrued expenses and deferred income.

Debt containment rule (debt brake)

The debt containment rule defines the maximum permissible expenditure on the basis of revenue and the state of the economy (see also «Extraordinary expenditure»). The debt containment rule is enshrined in the Federal Constitution (Art. 126, para. 1 of the Federal Constitution of the Swiss Confederation).

Duality (dual approach)

Two-pronged approach of the NAM, which adopts both the financing perspective (cash-view) and the profit and loss view. The dual perspective stems from the requirements of overall fiscal policy management of the federal budget («political rationality») and the business-oriented management approach («management rationality») at the level of the administrative unit.

Expense credit

Authorisation from parliament to post expenses charged to a specific credit for a given purpose and up to an authorised amount during the budget year.

Expenditure

Payments to third parties, including debit entries on the credit side. Term used in the financing statement.

Expenses

A decrease in value recorded in the accounting (expenditure and book-entry charges such as depreciation or accruals and deferrals). Term used in the income statement.

Expense or income without financing effect

Events purely in book-entry form (e.g. depreciation or deposits for provisions), which involve no flow of funds and therefore have no impact on the financing and cash flow statement.

Expenses or income with financing effect

See «Expenditure» and «revenue».

Expensing

Expensing means carrying items on the liabilities side of the balance sheet.

Extraordinary transactions

Extraordinary revenue and expenditure within the meaning of the debt containment rule. These refer to extraordinary and non-foreseeable events and adjustments of a technical nature. Whether or not a transaction is extraordinary in terms of the debt brake is governed by the Federal Constitution of the Swiss Confederation and the Federal Budget Act and determined by parliament. Extraordinary expenditure must amount to at least 0.5% of the maximum authorised expenditure.

Fair presentation

The annual financial statements present the actual situation in terms of the assets, finances and earnings. Also known as the «true and fair view».

Federal Budget Act

Legal basis for the Confederation's budget management. The fully revised Federal Budget Act came into force on 1 May 2006 (SR 611.0).

Federal Budget Ordinance

Statutory provisions relating to the Federal Budget Act. The revised Federal Budget Ordinance came into force on 1 May 2006 (SR 611.01).

Finance item

A general term for expense and capital spending credits and for income and revenue items.

Financial instrument

A contract resulting simultaneously in a financial asset for one company and a financial liability or an equity instrument for another (e.g. loan).

Financial reporting

This covers all report modules for the budget, medium-term budget and financial statement of the government.

Financing approach

The basis for the financing approach is the financing and cash flow statement. This merely assesses the expenditure and revenue.

Financing and cash-flow statement (FCFS)

Part of the annual financial statements that shows the inflow and outflow of funds. Derived according to the direct method.

- Level 1: Financing result from ordinary transactions: a comparison of the ordinary current revenue and expenditure and the ordinary investment expenditure and investment revenue
- Level 2: Comparison of extraordinary transactions (as defined by the debt containment rule)
- Level 3: Comparison of the flow of funds from debt financing and the change in net financial assets

Financing statement (in the old accounting model)

A comparison of the Confederation's expenditure and revenue as part of the public accounting under the old accounting model (current expenditure and investment expenditure or revenue). In the NAM, this is shown in the financing and cash flow statement (FCFS).

FLAG

German acronym for a New Public Management programme in the federal sector (Führen mit Leistungsauftrag und Globalbudget – management by performance mandate and global budget), which focuses public action on outputs and out-

comes. This gives public institutions greater latitude in the use of resources with increased responsibility for results. Of central importance is the strategically oriented performance contract, target-setting through outcomes and outputs, performance indicators and the financial framework.

Functional Classification

Subdivision of expenditure by task area and task.

Functional expenses

All expenses incurred in an entity's own area of competence (operating expenses).

Global budget (FLAG)

For FLAG agencies, the appropriations required for expenses and investment expenditure in the entity's own area, together with the estimated income and investment revenue, are submitted to parliament for approval in the form of two separate global budgets.

Gross presentation/gross principle

Assets and liabilities as well as expenses and income are posted separately from each other (i.e. no offsetting).

Income

An increase in assets posted in the accounting (revenue and book-entry income such as accruals and deferrals for as-yet unbilled services). Term used in the income statement.

Income statement (statement of financial performance)

Part of the annual financial statements. It shows the decline and increase in assets during the period and the profit or loss (periodic accounting).

- Level 1: Operating result exclusive of the financial income/expense.
- Level 2: Comparison of ordinary expenses and income, with the ordinary result being posted (incl. financial expenses/income)
- Level 3: Comparison of the ordinary and extraordinary expenses and income (in accordance with the debt brake).

Indicators

The Confederation's financial indicators are published as part of the Confederation budget and the Confederation account in Vol. 1. Key indicators are, for example, the Confederation's expense ratio (expenditure as a percentage of GDP), the tax ratio (ordinary tax revenue as a percentage of GDP), the deficit ratio (balance of financing and cash-flow statement as a percentage of GDP) and the debt ratio (gross debt as a percentage of GDP).

Internal control system (ICS)

Procedures, methods and measures designed to optimise the effectiveness of the operating business processes, to ensure the reliability of the accounting system and financial information, to protect federal assets from unjustified outflows,

and to ensure compliance with prevailing and applicable laws, directives and guidelines.

Internal service charges

Charging for internal exchange of goods and services, in the form of credits, between (federal) administrative units.

IPSAS

International Public Sector Accounting Standards (www.ipsas.org).

Master chart of accounts

The master chart of accounts is based on the Confederation's standard schedule of accounts. It forms the basis for determining the operating charts of accounts of the individual administrative units and serves to combine their accounts.

Medium-term budget

The medium-term budget lays down the requirements for financial resources and how they are covered for the three years following the budget year.

Notes to the annual financial statements

Part of the annual financial statements. A description of the accounting principles used in preparing the annual financial statements and the underlying accounting model. Explanations of individual items of particular importance in the annual financial statements. Additional information of significance in appraising the financial position and risk situation.

One-year basis

Credits not taken up are forfeited at the end of the accounting year.

Operating expenses

The Confederation's operating expenses, such as wages and salaries, materials, goods and administrative expenses.

Payment ceiling

The payment ceiling is the maximum amount set by the Federal Assembly for several years to be used as budgetary credits for a specific project area. No credits are granted with the payment ceiling. This is done within the framework of the budgets. Payment ceilings expressly afford the Federal Council and parliament some discretionary leeway in the annual budget and do not necessarily have to be used in full.

Profit and loss aspect

The basis of the profit and loss perspective is the income statement. This shows the decline and increase in assets during the period and the year-end net result.

Provisions

Liabilities from a past event for which the amount and/or due date is uncertain. Uncertainties may also exist concerning the facts of delivery of the goods or services or the recipients.

Realisation principle

Income is posted in the accounts when the services are actually rendered.

Restatement

Revaluation of assets and liabilities stemming from a change in the valuation principles from the time of its first application. A prerequisite for calculating the opening balance sheet.

Result

The difference between expenses and income (profit or loss); the bottom line of the income statement.

Results-oriented public management

Business approach to public management.

Revenue

Payments received from third parties, including credit entries on the debit side. Term used in the financing statement.

Scope of consolidation

Definition of those institutions to be consolidated in the annual financial statements.

Separate accounts

The Confederation's separate accounts cover the accounts in the area of the Swiss Federal Institute of Technology (ETH), the Federal Alcohol Administration, the fund for major railway projects and, from 2008, the infrastructure fund.

Spending cap

According to the «spending cap» (Art. 159, para. 3b of the Federal Constitution of the Swiss Confederation), legal provisions granting subsidies, authorising credit lines or payment ceilings that entail new non-recurrent expenditures exceeding CHF 20 million or new recurrent expenditures exceeding CHF 2 million require majority approval of the members of both chambers of parliament.

Standard schedule of accounts

Breakdown of the accounts forming the Confederation account (balance sheet, income statement, statement of investments).

Statement of investments of administrative units

Part of the accounts of the administrative units (Vol. 2) that covers capital loans (investment expenditure) as well as investment revenue.

Tax ratio

Direct and indirect taxes as a percentage of GDP.

Transfer expense

Transfers of funds to third parties without any direct return service (shares in federal revenue, contributions to current

expenditure) and value adjustments on investment contributions, loans and financial participations.

Transitory items

Transitory items comprise taxes and duties or parts thereof that the Confederation forwards to third parties and which therefore are not available for financing its tasks. Transitory items thus inflate the federal budget.

Treasury assets

Financial assets of the Treasury. The Federal Treasury guarantees the permanent solvency of the Confederation and its various operations and agencies. It attends to the Confederation's borrowing needs on the money and capital markets

and manages the federal debt. It places any surplus funds with the Swiss National Bank and on the market. The Federal Treasury is also responsible for hedging exchange-rate risks on current payments in foreign currencies and on major procurement projects, especially in the defence sector. Within the Confederation, it acts as the principal banker.

True and fair view

See «Fair presentation».

Valuation adjustment

Correction of the value of accounts receivable, loans and financial participations for devaluations incurred.