

Implementing Reforms in Public Sector Accounting

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Editor



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DISCLOSING LOCAL GOVERNMENT BUDGETS: COMPARING NORTH RHINE WESTPHALIA AND THE NETHERLANDS

Introduction

This article is written as a result of annoyance and opportunity. Until recently it was difficult to find budgetary and accountability documents of local governments which could be used for teaching purposes. That does not mean that information was not available, but considerable efforts had to be made to find the information. It resulted in the question how an interested layman could get hold of the information. An annual meeting of economists of the Universities of Münster and Enschede in 2005 gave me the opportunity do some systematic research on the availability of accountability documents of public sector entities on the internet. Under the influence of NPM-theories, government budgeting and accounting is changing all over the (western) world (e.g. Pollit and Boukaert, 2004). In The Netherlands, accrual budgeting and accounting has been used as of 1985. In 2004, a revised local government budgeting and accounting legislation was implemented, intended to focus on performance and outcome rather than on output. In Germany, a transition towards accruals budgeting and accounting is in the process of implementation. The idea of implementing accruals budgeting and accounting is accepted nationwide (Ridder *et al.*, 2005: 445). However, the federal structure of Germany allows for differences in local government budgeting legislation in each separate State in the Federation. In e.g. Hessen and NRW, implementation of accruals budgeting and accounting is to be realised by 2009, whereas in Baden Württemberg the city of Stuttgart announces that it will present an accruals budget in fiscal 2010/2011 (Stadt Stuttgart, 2007: 4). Due to these differences in regulations and timeframes, studying availability and contents of budget documents of more than one German '*Land*' (State) is likely to lead to ambiguous results. Therefore, I decided to focus on one Land, NRW, to study budgetary documents. The Netherlands and NRW share a common border, have a similar size of population as well as a similar number of cities and communities. Furthermore, Reichard (2003: 351) mentions that German reforms were influenced by knowledge from the Netherlands, which makes a comparison between the two jurisdictions attractive.

In the research I did in 2005, the conclusion was that in a direct comparison of Dutch and NRW local governments, NRW local governments are in an early stage of publishing information where as in the Netherlands there seems to be a trend to provide more information on the internet (Kruijf, 2006: 96). The study did however not assess the contents of budgetary and accountability documents of local governments.

More than a year has passed since that explorative study. In the Netherlands one can observe that several local courts of audit have prepared studies on the quality of especially budget documents (e.g. Rekenkamer Nijmegen, 2004; Rekenkamer Schiedam/Vlaardingen, 2005) as prepared under the format that was implemented in 2004. In NRW the implementation of the *Neues Kommunales Finanzmodell* [NKF] – accruals budgeting and accounting as part of a German version of NPM – (Ridder *et. al.*, 2005) is moving forward and has to be implemented by December 2008. Repeating the systematic search for accountability and budgetary documents will give an impression of developments in the use of internet as a tool to provide accountability information. Furthermore, there is an opportunity to get an impression of the information provided by local governments in both countries. The research question in this paper is: *Can informed users get an impression of the performance of local governments in the Netherlands and NRW based on budgetary and accountability documents on the internet?*

The research question will be answered along the following lines. In Section 1 I will give some theoretical background on issues of accountability and the use of internet by governments. In Section 2 I will address the key issues in the budgetary reforms in both countries. The methodology used in this article will be described in Section 3. After that I will address the empirical results, first with respect to what is actually found on internet, and secondly notes on the contents of the documents found (Section 4). Finally, I will draw some conclusions and give comments.

1. Accountability and the use of internet by governments

Blomgren Bingham *et al.*, (2005: 248) refer to governance as a process in which citizens and organisations are involved in developing and implementing government policies. The focus these authors use, is one on quasi-legislative and quasi-judicial processes¹ that give citizens the opportunity to get involved in the governance process. Boviard (2005: 219) summarises governance by stating that it is on the “role of non-state actors in decision-making on public issues”. Having a right to decide upon what is important implies that somehow information towards the public must be available to be sure that citizens are able to make their decisions.

The information issue has two complementary perspectives. First, there has to be a plan in which politicians state what they intend to realise within a certain period of time. In a democratic setting, the legislative power passes such a plan in the form of a budget law in which it authorises and appropriates budgets to the executive power. It is then up to the executive to actually realise the objectives included in the plan

¹ Examples given are, amongst others: e-democracy, mediation and arbitration.

and to report upon the results achieved. The annual report that results from this process is the accountability document in which the executive reports to politicians not only on compliance to the budget appropriations made available but also on the progress in achieving the objectives as stated in the budgetary document. These two documents are primary sources when interested citizens would like to have influence in the decision-making processes in the political domain. In the NRW local government regulations, the possibility for citizens' influence on the budgetary document is even institutionalised. Section 80.3 of the *Gemeindeordnung* [GO] (as of January 1, 2005) stipulates that citizens can express their objections and that the local parliament has to debate on these objections publicly. Such an institutionalised form of making comments does not exist in the Netherlands, but as in NRW, citizens must have had the opportunity for general inspection.

The opportunity given to citizens to inspect and or comment on budgetary documents can be regarded as a form of voluntary horizontal accountability (Goddard and Mannion, 2004; Schillemans, 2005: 29-30) from the perspective of local government. It fits into the NPM-philosophy where one of the issues is that a relation is made between resources used and realised results. Making information available gives opportunities for benchmarking. Bowerman *et al.* (2002: 445) note that in the public domain benchmarking is in many cases part of the basic accountability process rather than instrument for performance improvement.

The benchmarking opportunity has, at least in the Netherlands, had impact on local fiscal policy. Partly as a result of benchmarking efforts by scientists (e.g. Allers *et al.*, 2007) and lobby groups, restrictions were imposed on the most important local tax; effectively reducing the possibilities to raise tax income by local governments. Availability of information allows some (Verhoef, 2007), even to claim that the information provided in annual reports of Dutch local government is not reliable and underestimates the actual financial position of local government.

Like enterprises, governments may use internet as a tool to communicate with citizens. This does not necessarily lead to greater participation of citizens in political debates (Musso and Weare, 2005: 600). Particularly in the case of providing budgetary information on internet, technical restrictions can complicate downloading large documents². Some of the local governments that were included in this study tried to avoid downloading problems by splitting up the full budget document into smaller – easier to download – sections (e.g. Hertogenbosch and Düsseldorf).

Before I address the empirical data on budgetary and accountability documents, I will describe the developments in budgetary reforms in Germany and the Netherlands in order to deduct which information might be expected to be found on the net.

² In this study the largest document found was 52 MB.

2. The development of local government budgeting and accounting

This article is not intended to discuss in detail the necessity of using accruals accounting in local governments in detail. Lüder's contingency model (Lüder, 2001) gives a framework to analyse what factors have an effect on accounting reforms. Fact is that in many countries, accruals accounting in governments is developing; some countries are lagging behind, others are in the forefront of this development. From a strictly business economics point of view, one can argue that in case an entity does not have in theory an infinite tax capacity, and intends to produce services rather than consume income, continuity can only be guaranteed when accounting provides a measurement system that allows to assess whether or not the (productive) assets of the entity can be maintained in the course of time. To do so, revenues and expenses should be matched to each other, leading to a financial result that is at least covering costs in the long run. Accruals accounting is the generally accepted accounting framework for measurement in a business environment and is as a result of developments such as financial distress (Lüder, 2001) or perhaps the role of consultants (e.g. Brorström, 1998; Chan, 2003) more and more used in the public sector as well. Although some claim that cameral or cash accounting can measure financial performance in a similar way (e.g. Berens *et al.*, 1998; Günther and Schill, 2000; Monsen, 2001), in practice one can observe that accruals accounting is becoming the standard accounting framework in the public sector.

In both the Dutch and the German case, local government depends for substantial parts of their income from income transfers from other levels of government rather than from own resources. Reichard (2003: 346) indicates that in Germany independently generated income by local governments is about 44% of total income. In the Netherlands, this figure is lower, at the level of some 33%, half of which are taxes or user fees³. Such numbers indicate that local governments depend on income transfers from third parties, and that the accounting framework should allow assessing the financial position of local government in the long run. In Lüder's farewell speech he stated that the use of resources should be covered by revenues in such a way that citizens actually pay for the use of the resources (Lüder, 2003: 9) or in other words, the matching principle also holds in the public domain. Despite these arguments, Germany is only at the beginning of a transfer to an accruals budgeting and accounting system. In the Netherlands the system has been introduced at the local level some 20 years ago.

In the following subsections I will address the development of budgeting and accounting in both The Netherlands and NRW and up till the present (2007) regulations.

2.1. The Netherlands

As of January 1, 1985, the Dutch Local Government Accounting Regulations [LGAR] prescribe that budgeting has to be based on accruals accounting. Debates on

³ Own estimate based on Begroting Gemeentefonds 2007, pp. 48-49

using accruals accounting in the Netherlands started in the early 20th century (Van Gijn, 1912; as described in Van der Bij, 1993: 182-192) and a committee even proposed using accruals accounting for Central Government in 1960 (Simons Committee, 1960). Changes in funding of local government in 1984 lead to an increased need for cost consciousness, which was supported by the introduction of the accruals based LGAR1985. In the first stage of the change, traditional line item budgeting under a prescribed classification of Local Government activities was realised. A few years later, within the context of the work on revising the Local Government Act, one realised that the tools for city councils to decide upon policy programs were not adequate. A project called BBI⁴ – in English Policy and Management Instruments – was started in 1987 to improve the decision making opportunities for city councils. The project intended to create a relation between budgets and policy programs by subdividing the budgets in specific tasks (products) to be realised by local government. Budgets were to be presented at the level of tasks rather than on line item expense categories. As of 1995 LGAR were changed again, this time a major issue was the transition to full cost (i.e. including costs of staff) to the tasks identified. This change was intended to give the city council more opportunities to use its right to allocate budgets to tasks. In general, the project BBI was not as successful as had been hoped, the key focus still was financial technical and directed at compliance and internal organisation (Aardema, 2002: 328). Van Helden and Ter Bogt (2002) have shown in their research on the behaviour of Aldermen on the information available in the planning and control cycle that they hardly used the information they received, due to underdeveloped planning attitudes and lack of understanding of differences in tasks performed by local governments (Van Helden and Ter Bogt, 2002: 83).

At the end of the 1990s, efforts were started to make a separation between the legislative power and executive power at the local level. The objective of this project was to realise more political debate on essential political issues, rather than intervention at case level by members of the city council. The Aldermen which were part of City Council until then, had to focus on the realisation of the objectives set by city council and should therefore not be a member of that council anymore. This change was implemented by 2002. To facilitate the change in the political process, as of 2004 the LGAR were changed again.

The LGAR2004 reform had a more political than technical impact. Key issues in the change are that local governments are free to decide upon policy programs fit upon their local situation, rather than using the standard framework that was prescribed by the Minister of the Interior. Second, two budget documents are to be prepared. The first one – the program budget – is a document for city council in which the objectives and outlines of the policy programs are defined and in which city council decides upon a budgetary framework for each of the policy programs. The whole system is based on three questions: “What are our objectives? What activities have to

⁴The description given here is based on Aardema’s study of the project BBI, more specifically Aardema (2002: 83-91).

be realised? and (at) What cost?”⁵ Budgets may be proposed on program level in total expenses and revenues for a program; further detailing or even line item budgeting is not needed anymore. The second budget document – the product budget – is intended to be an internal control tool for the executive power. Given the program budget decided upon, a budget is appropriated for each of the specific activities that have to be realised to achieve the objectives set by the city council. In principle, city council will not discuss the product budget. To assure statistical comparability, some provisions are made which require communities to deliver data based on the classifications that were used before. However, this requirement does not need to result in presentation or discussion in city council.

The direct effects of this last change are that local government budgets primarily are classified on local needs, rather than on central governments’ standards. Comparability of budgets of different local governments has become more difficult, but it is hoped that city councils and citizens can identify themselves with the locally designed programs and as a result political debate will improve. Another direct effect is that performance indicators have become more important than they were before as it is expected that the budget explicitly includes the objectives that have to be achieved.

The development of the budgeting process in The Netherlands is accompanied by more emphasis on the annual report as well. As of 1997 this is institutionalised by the requirement that the city council has to receive both a statement of accounts and an annual report (Bonnema *et al.*, 2001: 132). These authors also note that in LGAR there has been a shift in focus from budgeting to accountability, which is continued in the present LGAR2004 (Bonnema *et al.*, 2001: 136). Preparing a separate accountability document, which is required to be submitted to monitoring institutions before July 15, $t+1$, gives the opportunity to discuss the results achieved in the city council along the lines identified in the budget document.

To illustrate the effect of the changes, I describe an example of one program in the program budget 2007 of a small town. The program is called: “Work and income”. It includes objectives aimed at services for local business and creating jobs, income provision for those who need financial support and activities related to give people new chances to find jobs. Under the LGAR1995 members of city council had to assess at least two different parts of the budget document. Economic development and income provision were separate issues, but were more or less identical in each local government. The new program classification may contribute to more coherence in operations with respect to participation on the labour market and economic development at the local government level. Another local government may have chosen for a slightly different classification than is used in this example.

The programs in the budget document have, as a result of the changes, become more flexible, it is possible to change definitions of programs over time (section 4, LGAR2004). The only requirement is that programs in budget documents and the accountability documents on the same fiscal year must be the same. Theoretically this means that when a new majority comes into power, they may have a different

⁵ These 3-W questions were implemented before in a budget reform as of 2002 at the national level.

emphasis on local government and express that emphasis in the budget documents they prepare. LGAR2004 prescribes a specific format for budgeting and accountability documents. The format prescribes (sections 7.2 and 9 LGAR2004) that there must be a program budget, accompanied by 7 separate sections⁶, each of them addressing a specific category of risks that may affect the financial position of the local government. To complete the budgeting documents information must be given on labour costs, proposed investments, reserves and provisions.

Due to the degrees of freedom given to local governments substantial differences in budgeting documents have emerged. On the one hand, there are still local governments who use a budgeting model that is set up along defined policy domains of the old LGAR1995 resulting in a 250+ pages budgeting document with hardly anything more than numbers. On the other hand, a local government of a similar small size (<40,000 inhabitants) has managed to deliver a – in my personal opinion – well written and illustrated – 84 A5-pages budget document. Whether both documents deliver the information required to make the relevant political decisions or comply to legislation is another issue, not necessarily depending on the size of the document.

The conclusion of this section is that in The Netherlands, accruals budgeting and accounting at local level has been used for more than 20 years now. The system has developed from a classic line item budgeting system towards a more or less integrated system in which objectives and performance as well as using additional tools to assess financial risks have been integrated.

2.2. North Rhine Westphalia

Budgetary reforms in Germany seem to have had a rather different history. Lüder (2003: 3) refers to discussions in the 1950s in which politicians tried to change the then present cameralistic accounting system into an accruals accounting system. More than a century before, there had been statements of accounts in Austrian Government, but due to the influence of a more legalistic approach of government this tradition was lost (Lüder, 2003: 4.). Under the pressures of financial distress and the NPM-developments, the discussion to implement accruals accounting put on the political agenda again in the early 1990s. The discussion did however start from a debate on management control in local government rather than the need to assess the financial position of local governments. According to Ridder *et al.* (2005: 444) a NPM model that originated from Tilburg (NL) was promoted by a local government association in Germany. This has led to reforms in the domain of budgeting and performance but also e.g. in the domain of total quality management. The complexity of the German public sector, where autonomy of *Länder* is an important issue (Adam and Behm, 2006: 217), leads to the fact that there is no single solution to the issue of accruals budgeting and accounting. By now all but two *Länder* (Stock, 2006) are working on forms of accruals accounting within their jurisdiction. North Rhine

⁶These sections are: local taxes, required equity, maintenance of assets (buildings, roads and the like), finance, operations, affiliated entities and finally risks related to land development.

Westphalia [NRW] is one of the early adapters (Ridder *et al.*, 2005: 447), which will be discussed below.

As of January 1, 2005 the Local Government Regulations of NRW allow for the implementation of accrual budgeting and accounting under the acronym NKF⁷. By January 1, 2009, all Local Governments in NRW have to use accruals budgeting and accounting and must have prepared an opening balance sheet (NKFG-NRW, section 1). In the early stage of the reform, six towns and a district are implementing the reform within the framework of a pilot project. These organisations are supported by consultants and the Ministry of the Interior of NRW. In the literature that is available to me⁸ one can observe some parallels to the development of BBI in the Netherlands. Weaknesses of BBI were internal orientation and the mainly financial technical character of the reform. According to Aardema, these weaknesses can also be regarded as useful in times of distress and a preparation stage towards a more external oriented planning and control system (Aardema, 2002: 291). In a report on the results of a questionnaire amongst NRW-communities, it is concluded that the attitude towards change is positive (Steria Mummert, 2006: 37). This is in line with an observation of Stock (2006: 46) who quotes a controller in stating that both politicians and civil servants must have a positive attitude towards change. However, at present the core of the change is regarded as an accounting change rather than a change to output and performance management. The authors of the questionnaire report (Steria Mummert, 2006: 37) stress that it is necessary to emphasize the management and control perspectives of the reform. Similar remarks are also expressed by Ridder *et al.* (2005: 468) who refer to “poor utilization of ... opportunities’ and ‘implementation in a more or less technical mode.” Reichard (2003: 354) emphasised that in the first stage of implementation of NPM reforms, the focus is on the technical aspects such as product definitions, budgeting and monitoring rather than on organisational change or quality management.

The second part of this subsection will address the requirements that are laid down in the NRW Local Government Regulations. Due to the transition phase in the process towards accruals budgeting and accounting, two different models exist. I will first address the legal requirements under the traditional cameral accounting system. Accounting bases are expenditures and revenues. The budget consists of a budget decree (*Haushaltsatzung*) and a budget document. The decree lists on a totalised level the expenditures, income, long run debts on behalf of investments and encumbrances as well as the basis for taxation and the limits for short run debts. The budget document specifies the contents of the budget decree on a lower level with respect to expenditures, income and encumbrances and is split up into an operating budget (*Verwaltungshaushalt*) and an investment budget (*Vermögenshaushalt*). Furthermore details on cash flow plans, provisions and earmarked equity and staff have to be provided. At the end of the fiscal year, a statement of accounts has to be prepared disclosing actual expenditures and

⁷ NKF = *Neues Kommunales Finanzmanagement*; New Local Government Financial Management; NKFG = Law on NKF

⁸ May references in German literature be hard to access from abroad; see for a list of references e.g. http://www.neues-kommunales-finanzmanagement.de/dokumente/literatur_und_aufsaeetze.pdf, visited April 2, 2007.

revenues as well as the opening and closing levels of provisions and equity. The last element in the annual report documents is a statement on affiliated and associated parties (*Beteiligungsbericht*). In case a local government must propose an imbalanced budget, an additional requirement is a multi-annual plan to create a balanced budget again (*Haushaltsicherungskonzept*).

Under accruals accounting, basically the same documents exist, although now of course based on revenues and expenses. I neglect preconditions such as an opening balance sheet when the transition from cameral accounting to accruals accounting is realised. The budget decree now consists of an accruals based budget, a cash flow budget, an investment budget and an encumbrance budget; the latter remains cash based (jdk). Cash limits, use of provisions and equity as well as tax basis are to be included as well. The budget document now consists of separate specifications of revenues and expenses (both including cash flows), level of encumbrances and details on staff. Remarkably, no requirements exist on specifying provisions and equity (section 79 GO). As under cameral accounting, a cash flow plan has to be included as well. At the end of the fiscal year, a statement of accounts has to be presented in which the financial position has to be assessed based on equity and debt, financial result. A balance sheet and cash flow statement have to be prepared. Affiliated and associated parties have to be reported upon and these entities have to be consolidated in the overall statement of accounts / balance sheets that have to be prepared.

2.3. Regulations compared

When regulations in NRW are compared to those of The Netherlands, some differences emerge. First, in NRW a separate budget decree has to pass city council. This is an explicit requirement, whereas in the Netherlands such a requirement is of a more implicit nature. In The Netherlands, a decision document will be prepared after the budget proposal has been adopted but there is no explicit legal requirement. A second difference is found in consolidation. Where in NRW consolidation of affiliated and associated parties is required, in the Netherlands it is explicitly forbidden. Both in NRW and The Netherlands, references are made to the use of performance indicators in the budget (section 4 of the *Gemeinde Haushaltsverordnung* in NRW and section 8.3 of LGAR2004 in The Netherlands). The difference between the two is that in the Netherlands, performance has to be outcome oriented, whereas in NRW it is output oriented. Both the NRW system and the Dutch system are basically product oriented⁹ and in that respect comparable. Other German *Länder* primarily present a budget based on organisational units rather than a product oriented budget (Adam and Behm, 2006: 220). A final difference is the use of cash flow statements. In NRW these are included in budget plans. In The Netherlands no cash flow statement is required. A separate section on finance in Dutch documents aims at identifying possible (interest) risks with respect to long and short term debts, but that is not comparable to a cash flow statement. Local governments in the Netherlands are required to develop their own

⁹ Indicating activities and services delivered either on output or outcome basis.

treasury regulation within the framework of a national regulation in which standards are set for the maximum levels of short term debt and interest risk on long term debt.

In this section a short overview on the present regulations in both NRW and The Netherlands was given. The requirements described here can be used to assess the actual information that is provided in budget documents of local governments. Before I will address the results of the empirical study, I will first make some remarks on research methodology in the next section.

3. Budgeting information on the internet

In this study two objectives are to be realised. First, an assessment of the actual availability of budgeting (and accountability) documents of NRW and Dutch Local Governments on internet. This part of the study is more or less a replication of my 2006 study (Kruijf, 2006), although for the NRW case the search is explicitly extended to find NKF-information. Second, giving an impression of the quality of these documents realised from the perspective of an informed reader. Young (2006: 596) made an assessment of financial documents from a users' perspective that is used by accounting standard setting bodies. Her conclusion is that standard setters used a perspective of a rational decision maker, very close to the position of investors and creditors. A more or less similar position is taken by Verhoef (2007) when he contests the financial results of Dutch local governments and discusses technicalities. Although that is important from an investor or creditor perspective, the objective of a government budget is to present the objectives to be achieved and the decisions to be made to realise these objectives, related to the (financial) risks that exist. Not all members of a city council are financial experts, but yet they have to decide on the objectives local government wants to realise within the next fiscal year (and perhaps a few years after). The interested reader who is willing to participate in political debates will be looking for objectives to be realised. Restrictions as a result of remaining financial risks and the levels of expenditure in relation to the performance achieved are supposed to help understanding the activities (to be) realised by local government. Therefore, I regard an informed reader as someone who is politically interested and has some knowledge of government budgeting and policy making. I will focus on objectives and the relation between performance and expenses when assessing the actual documents available.

3.1. Research method

The assumption in this study is that when accountability information of private sector entities can be disclosed on internet, similar information in the public domain can be disclosed as well. The basic accountability documents in the public domain are budgeting documents and annual reports of the entities which are object of the research. In this case the question focuses on information on local governments in NRW and The Netherlands.

The first question is what information should be available. The descriptions in Section 2 give an idea of the information that is required in deciding on budgeting and accountability in both jurisdictions. The problem is how to find the information on the internet. In some cases direct links may be available on a home page, in others the information is only revealed after a more detailed search. To find the information I made a list of relevant keywords to use in the search engines of the websites. Such keywords should direct at the information that is relevant to the legislator and the public; internal management documents are omitted. I refer to my 2006 paper (Kruijf, 2006: 81) for a more detailed description of the procedure, but the key is that for the German case I did not only used legislation¹⁰, but used a pilot study to find keywords and asked some native speakers to corroborate the keywords I found. In addition to the keywords used in the previous research I added the specific keywords for accrual based budgeting and accounting for the NRW-case. The full list of keywords used is included in Annex 1.

The second step is selecting the research objects. I chose to search for data of all municipalities above 40,000 inhabitants in 2005 in both jurisdictions. As it happens the number municipalities of that size is almost the same. I already noted that NRW and the Netherlands are more or less similar in size and that by choosing one Land, differences in German regulations are controlled for. I took notice of the 6 municipalities who run the NKF-pilot project in NRW and will discuss them separately. By making this selection, generalisation to all German municipalities is not possible. I will make some notes on other German *Länder* at the end of this article.

The fact that differences in tasks exist between NRW and Dutch municipalities, partly due to the role of the *Kreise* (Districts) in NRW, does not affect the research because the issue of budgeting and accountability is universal, although the objects of budgeting may be different.

The third step is collecting the actual data. When no direct link on the home page of a municipality was available, the keywords were used to find full budget documents and annual reports; press releases and speeches were neglected. In a number of cases large lists of hits were found. In that case, I scanned the list for the first 20 items; assuming that when a document was not found by then, it is not likely that it is available at all. When documents were found, the relevant fiscal year was recorded. The data in my 2006 research revealed that in NRW it is possible to pass a budget decree for two fiscal years at once, and I therefore had to assess what is actually the most recent document available. I completed the search for data on Dutch Local Governments in January 2007. By that time, all budgets should have been passed City Council and Local Governments who only present data after decisions in the City Council would have had a month to publish data. The annual report 2005 is in general discussed in June 2006. The municipalities that did not publish them by January 2007 will most

¹⁰ *Gemeindeordnung für das Land Nordrhein Westfalen* (Local Government Act), *Neufassung vom 14. Juli 1994*, and *Gesetz über ein Neues Kommunales Finanzmanagement für Gemeinden im Land Nordrhein-Westfalen* [NRW-NKFG-NRW] *vom 16. November 2004* (changing Local Government Act and describing NRW-LGAR). The Dutch legislation is *Gemeentewet* (Local Government Act) and *Besluit Begroting en Verantwoording* (LGAR2004).

likely not publish at all. The NRW data were searched for in March 2007, mainly for organisational reasons. From a legalistic point of view, one could argue that the ‘*Haushaltsatzung*’ (Budget decree) can only be published one month after it has been submitted to the monitoring institutions (section 79.5 GO), which would imply that such data are available no sooner than at the start of the fiscal year. Searching in March gives a time frame of two months after that critical date.

The objective of this study is not only to look at availability of documents, but also give an impression of the quality of documents for decision making. Some authors (e.g. Vollmer, 1990; Coy and Dixon, 2004) have developed extensive disclosure indices to monitor quality of public sector documents, more specifically with respect to annual reports. In this case it is not possible to develop a single disclosure index that can be applied to both The Netherlands and NRW due to the different stages of development of accruals based budgeting documents. I chose to design two different indices. The index used by Vollmer (1990) is by now out of date. In the Dutch case, the emphasis is on completeness (both budget and annual report), risks, consistency of programs over time, performance information and summaries in the Dutch case. Creating a disclosure index based on these items is similar to the assessments Dutch local courts of audit use to assess the budget documents (e.g. Rekenkamer Utrechtse Heuvelrug, 2007).

The NRW index focuses on budget documents, non financial explanations¹¹, NKF explanations and summaries. The disclosure indices used are in this case not systematically developed and tested by peer groups. Coy and Dixon (2004: 85) suggest that a systematic construction of a disclosure index is possible when reporting is well established and mature. In NRW a transition from one accounting system to another is still in an early stage, which makes a systematic construction of a disclosure index rather difficult. As a consequence of the stage of development and the fact that my 2006 study (Kruijf, 2006) had revealed that only a few NRW local governments had information submitted on the internet, I chose to restrict the study on NRW to availability of information only.

A full list of the composition of the disclosure indexes can be found in Annex 2.

4. Availability of information

4.1. Budget documents on internet

Searching for information of local governments on the internet requires that such a facility is available for all local governments under scrutiny. All 96 Dutch and all 101 NRW local governments above 40,000 inhabitants have their own website, which means that it is possible to study the whole population. The previous research on 2004 annual reports and 2006 budget documents indicated (Kruijf, 2006: 91) that in NRW there are very little separate accountability documents available. This is

¹¹ The 2006 research revealed that where budget documents were available, in most cases these only consisted of numbers and very little explanation. Giving explanations is from that perspective an improvement towards better understanding of the budget proposals.

confirmed in the present research; only 3 (2004: 2) cities made separate documents on accountability available. In The Netherlands, in 40 (2004: 30) cases annual reports were available. Two conclusions can be drawn. First, in NRW publishing separate accountability documents by local government is only at its early stages. The relevant financial information is available, but is only disclosed within the context of a new budget proposal. In The Netherlands, accountability is an issue and the figures presented here indicate that there is an upward tendency to publish the main document on accountability on the internet.

In the remainder of this section I will focus on the availability of budget documents and their contents. Table 1 shows the results of searching the internet for budget documents in both jurisdictions.

Table 1 – Budget documents available on internet by jurisdiction

	NL		NRW	
	2006	2007	2006*	2007
No document	42	32	83	63
Most recent document	54	64	18	27
Older document	n.a.	n.a.	n.a.	11
Total	96	96	101	101

* The data for NRW 2006 include budgeting documents of either 2005 or 2006 which were available by November 2005.

A first conclusion is that in both jurisdictions, an increase in publishing budgetary documents can be observed. The increase in publishing documents in NRW is twice as high as in the Netherlands when only the availability of the most recent documents is observed. In the Dutch case I did not search for older documents because of the fact that each year a new document has to be submitted. In the NRW case, the mere fact that a document is available seems to be of more importance until now.

A more detailed look into availability of budgeting documents reveals that the smaller municipalities are lagging behind in submitting recent documents in both jurisdictions. Especially the larger cities in NRW have increasingly managed to submit information to the internet.

Table 2 – Percentage of availability of budget documents by jurisdiction and size of local government

	40,000-100,000 inhabitants				> 100,000 inhabitants			
	NL (n=71)		NRW (n=71)		NL (n=25)		NRW (n=30)	
	2006	2007	2006	2007	2006	2007	2006	2007
No document	51%	38%	79%	63%	24%	16%	90%	60%
Most recent document	49%	62%	21%	23%	76%	84%	10%	37%
Older document	n.a.	n.a.	n.a.	14%	n.a.	n.a.	n.a.	3%

The six local governments¹² that participate in the NKF-pilot project do not all provide budget documents on the internet. Two of them provide 2007 documents, two provide 2006 documents and the last two do not provide any budgeting documents at all. In the 2006 study, only one of these six local governments provided budget information on the internet. A final remark with respect to the availability of documents regards the separation of NKF-style documents in NRW and traditional – cameral style documents in NRW. Of the local NRW governments (n=38) that submitted budget documents by March 2007, 19 had developed NKF-style budgets for some of their services for either fiscal 2007 (8 cases) or an older fiscal year, which means that 15 other local governments than those in the pilot project have already submitted (partial) NKF-style budgets on the internet.

Unlike in the Dutch case, NRW local governments have provided documents of a previous fiscal year on the internet. Based on the text in the budget decrees, I have found that specifically the smaller local governments seem to have trouble in passing budget decrees in time. Of the 37 budget decrees available, 14 were passed after the fiscal year had started and all but one were from the smaller local governments. Twelve other local governments (7 small) submitted draft budget decrees on internet which gives an inconclusive result with respect to timeliness. Apparently small NRW local governments seem to have some trouble in passing their budgets in time.

A first conclusion on the data is that there is an upward trend in presenting budget information of local governments both in the Netherlands as in NRW on the internet. NRW seems to be catching up in 2007 especially in the larger local governments. As this study did not include a questionnaire on reasons why local governments have submitted their budget documents on the internet, it is hard to find an explanation. On the one hand, perhaps the possibility of having sufficient resources and skills in larger communities may be an explanation for submitting information on the internet. On the other hand, the size of the documents in NRW is huge; the largest one has more than 1,500 pages which hardly contain anything more than numbers. In The Netherlands, three of the four largest cities present documents of some 300 pages¹³ with substantial numbers of pages text, performance indicators, objectives and the like. Large documents consisting of numbers only may not be the attractive documents a local government likes to submit on the internet¹⁴.

In the following subsection, I will give an impression of the data available by using a disclosure index. This gives an opportunity to assess whether the broader perspective of NPM with respect to management control is reflected in the budgetary documents as they exist by early 2007.

¹² The *Gemeinde Hiddenhausen* is part of the NKF-pilot local governments, but is not included in the main research as it has only some 21,000 inhabitants.

¹³ The last of the big four cities in The Netherlands submits documents of some 600 pages, still substantially smaller than NRW documents.

¹⁴ The city of Mainz (capital of Hessen) notes that it does not submit present cameral budget documents on internet for this reason (Mainz, 2007).

4.2. Impression of information available

One of the intentions of the change towards the present accounting regulations in the Netherlands was that the politicians and citizens must be able to understand and assess the financial position of local governments (Ministerie van Binnenlandse Zaken en Koninkrijkszaken, 2007). By using a disclosure index, an indication can be given on the quality of the information available in the budget documents in both jurisdictions. In Section 3.1 I have discussed the contents of the disclosure indices. In the Dutch case, the disclosure index can be used to give an impression of the contents of budgetary documents. In the NRW case, the disclosure index is restricted to a score based on the availability of documents that must be available according to law, because in most cases, the budget document itself is hardly anything more than numbers. The value of the disclosure index presented in the tables below is the percentage score related to the maximum score possible on the respective indices (see Annex 2).

I will start with the results of NRW. Table 3 shows the overall score for the NRW local governments for which budgetary documents were available. Of the 101 local governments in NRW, 38 had documents that could be assessed.

Table 3 – Disclosure index for NRW by size of local government

Range	40,000-100,000 inhabitants (n=71)	> 100,000 inhabitants (n=30)	Total
1-25	4	0	4
26-50	16	3	19
51-75	4	8	12
75-100	2	1	3
Total	26	12	38

The results indicate that the smaller local governments tend to have lower scores on the disclosure index; nearly 80% of them have a score below 50, whereas the larger local governments have in 75% of the cases a score above 50. The main explanation for this difference is found in the fact that budget documents of the smaller local governments do not regard the most recent fiscal year. On the other hand, details reveal that smaller local governments that do present non-financial information provide more information than the large local governments do. One should not overestimate the availability of non financial information; only 8 of 101 local governments have provided basic forms of performance indicators.

The local governments that do provide NKF budgets generate higher disclosure indices than those who do not, when the individual score for the availability of NKF budgets is disregarded. This might be an indication that the initiative of NKF does generate a different attitude towards budgeting and accountability. Two cities are mentioned here as examples for best practices in providing information. Bonn and Aachen have developed a summary of the budget plans 2007 that goes beyond a summary of financial data and in which they try to explain to the citizen what the financial position of the town is.

The conclusion of this subsection on NRW local government budgets is that in nearly 40% of the cases a statement on availability of information can be given. In 2/3 of those cases, the score is in the lower half of the range implying that not all information is provided. Essentially however, it appears that information itself has not substantially changed as a result of the transition from cameral to accruals budgeting in NRW.

In the second part of this section, I will address the results for The Netherlands. Where in NRW in some 35% of the cases documents can be studied; in The Netherlands this figure is some 65%. The reader must be aware that a direct comparison between budget documents of Dutch and NRW local governments is not possible and that the disclosure indices used are not identical. The Netherlands has a longer history of using accruals budgeting and accounting as well as efforts to improve performance information in those budgets. This allows including a performance based index as an indicator for quality of disclosure in Dutch budgetary documents. However, I will start presenting a disclosure index on information provision, based on the same idea as used in the NRW case. Table 4 shows the results for Dutch local government.

Table 4 – Disclosure index for Dutch local governments by size

Ranges	40,000-100,000 inhabitants (n=71)	> 100,000 inhabitants (n=25)	Total
1-25	1	1	2
26-50	35	12	47
51-75	8	7	15
76-100	0	0	0
Total	44	20	64

Some 20% of the smaller Dutch local governments that do provide information on the internet have disclosure scores above 50. The large Dutch local governments have in 35% of the cases a score above 50. Not one of the local governments achieves to realize the top level range of the disclosure index. The main factors that affect this result are consistency over time: 70% of all Dutch local governments above 40,000 inhabitants have changed the name or contents of their programs, which makes comparison more difficult. This change may be the result of the elections that were held in 2006 but that can only be tested by assessing the 2008 budgets at the end of 2007.

Performance information can be used to assess the objectives and results of local governments. Table 5 shows a disclosure index on availability of performance information in Dutch budgetary documents.

Table 5 – Disclosure index on performance information for Dutch local governments

Ranges	40,000-100,000 inhabitants (n=71)	> 100,000 inhabitants (n=25)	Total
0	10	0	10
1-25	6	3	9
26-50	12	6	18
51-75	11	7	18
76-100	5	4	9
Total	44	20	64

In only 40% of the cases scores on performance in the upper half of the range are found and only 14% of local governments manage to qualify for the top quarter range. Unlike the general disclosure index in Table 4, there are some local governments that do disclose (nearly) all performance indicators that were selected for this study. The difference between small and large Dutch local governments is strongly influenced by those local governments that do not provide the selected performance indicators in their budgetary documents. Another point to be made is the lack of information on investment programs. Dutch LGAR2004 requires that an overview of investments must be included in the budget documents. In 45% of the budget documents found, a list of all investments was not available¹⁵ and in only 12% the information complied with regulations.

The conclusion of this subsection on availability of budget and performance information of Dutch local governments above 40,000 inhabitants is that there still are opportunities to improve the quality of budget documents. What is specifically surprising is that legal requirements are not fully met (investments) and that a large number of local governments have chosen to change the name and contents of aggregated programs, which results in less comparability over time.

General conclusions and further outlook

This paper aims at assessing availability of budget documents as part of efforts to improve public debates on the ambitions of local government. The second objective is to find out whether the documents available have such a quality that they provide the information that is needed for such a debate. My first conclusion is that with respect to openness and transparency a positive trend can be observed. In both jurisdictions, the number of budget documents available has risen in comparison to a year before. In NRW the relative improvement is larger than in The Netherlands where the absolute number of budget documents on fiscal 2006 tripled the number of the NRW local

¹⁵ In some cases, information on investments was spread throughout the budget document and included in each separate program.

governments. My second conclusion is that either being a member of the general public or being a member of a city council in NRW, I would hardly know what I am deciding on when budget documents are passed. Performance indicators hardly exist and most documents have the character of huge operational line item budgets for management. The disclosure index used for NRW was directed mainly at availability and completeness of documents, the NKF-project is still at its early stages and it is probably difficult as it is to make a change from cameral accounting towards accruals accounting. I agree with those who note that NRW local governments (e.g. Stock, 2006) have to be aware of the fact that the transition should not only be a technical effort to change from one accounting system into another. The Dutch case of BBI (Aardema, 2002) clearly showed that when there is no real support for a change, there is a real chance of failure. A question is whether NRW can be regarded as a representative sample for all German local governments over 40,000 inhabitants. It is difficult to find an answer to that question without further research. I did have a look at the websites of the 12 capitals of the other (non city state) *Länder*. I found budget documents of 6 of them which strongly resemble the documents I found in NRW. That might be an indication that the results in this research actually are an indication of actual budgetary disclosure in Germany.

The scores on the Dutch indices seem to be better at a first glance. Of course, more than 20 years of experience with accruals budgeting and accounting has its influence on the disclosure of information. However, as a Dutch citizen or member of a city council I would not be completely satisfied yet. The most recent change of the LGAR in 2004 intends to shift focus from the details of activities performed by local government to the objectives to be achieved and for a broader view on the financial position than can be achieved by presenting a statement of accounts and balance sheet. Such a change requires that the information presented in budgetary documents as well as in annual reports aims at setting standards and disclosing norms to be achieved. The disclosure index used was developed to find some data on these issues. Fiscal 2007 is the third year after the implementation of the change in LGAR. It appears that even when searching for rather obvious and simple performance indicators the scores found are disappointing. Not even half of Dutch local governments did present the information I was looking for. Research of local courts of audit confirms this conclusion. Their far more detailed study for their (single) local governments¹⁶ indicate that smartness, completeness and setting standards in all these budget documents can be improved.

A question that remains unanswered in this study is whether all local governments are able to comply with the high standards that are imposed upon them by higher authority. My general impression from the data is that in both The Netherlands and NRW, the smaller local governments – and note I am not discussing the nearly 400 smallest local governments (below 40,000 inhabitants) in each of the jurisdictions – do not publish their budget documents on internet. When they do, the disclosure index reveals that they are lagging behind the results of their larger fellow local

¹⁶I had reports available on Arnhem, Nijmegen, Apeldoorn, Haarlemmermeer (all 100,000+ inhabitants) and Alkmaar, Schiedam, Vlaardingen (all 75,000+ inhabitants).

governments. Do these local governments have sufficient resources to comply with standards, is there a lack of political attention for the issue, is it a matter of priorities or are perhaps other explanations possible? Answers to these questions can only be revealed by further research on the support for change both in the political domain as amongst civil servants.

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Annexes

Annex 1: Keywords for internet search

	Annual reports	Budget documents
German	<p><i>General</i> Rechenschaftsbericht Gesamtlagebericht Beteiligungsbericht</p> <p><i>Traditional budgeting</i> Haushaltsrechnung Rechnungsbericht Vermögensrechnung Verwaltungsbericht</p> <p><i>NKF-related:</i> Eröffnungsbilanz Jahresbericht Geschäftsbericht Jahresrechnung Kostenrechnung Leistungsrechnung Jahresbilanz Gesamtbilanz Jahresabschluss Gesamtabschluss Ergebnisrechnung Finanzrechnung</p>	<p><i>General</i> Haushaltsatzung</p> <p><i>Traditional budgeting</i> Stadthaushalt Verwaltungshaushalt Haushaltsplan</p> <p><i>NKF-related:</i> Produkthaushalt Neuses Steuerungsmodell (NSM) NKF Ergebnishaushalt Finanzhaushalt Ergebnisplan Finanzplan</p>
Dutch	<p>Jaarverslag Jaarrekening Programmarekening Burgerjaarverslag</p>	<p>Begroting Programmabegroting Jaarplan</p>

Annex 2: Disclosure indices

NRW disclosure index

Code	Description	Possible scores
NRW_Vmh	Availability of Vermögenshaushalt investment budget	0: no 5: old 10: most recent
NRW_Vwh	Availability of Verwaltungshaushalt operating budget	0: no 5: old 10: most recent
NRW_Satz	Availability of Satzung budget decree	0: no 5: old 10: most recent
NRW_Beteil	Availability of Beteiligungsbericht affiliated and associated entities	0: no 5: old 10: most recent
NRW_NKF_B	Availability of NKF budgets	0: no 5: partially 10: full
NRW_NKF_I	Availability of NKF-explanation (i.e. an explanation on how and why of the reform)	0: no 5: yes
NRW_NF_Info	Availability of Non-financial information in docs any information regarding output or outcome is accepted, explanations regarding change of budget only are not accepted	0: no 5: yes
NRW_Summ	Availability of Summary other than level of cashflows A summary on the budget plan that explains to some extent the ambitions of the local government	0: no 5: only figures 10: including text

Due to the fact that previous budget documents gave the impression that most NRW budget documents only contained financial information, I chose to accept any form of non-financial information to qualify as a form of performance indicator. An easily accessible summary of the budget will contribute to the participation of citizens in discussions on the intended plans of local government and can be used as a starting point to study the budget document in more detail. Therefore the existence of a summary is included in this index. Similarly, the reform leads to totally different financial information than people are used to. Giving an explanation or referring to the general NKF-website (<http://www.neues-kommunales-finanzmanagement.de/>) can contribute to understanding of the documents available and hence in participation in budgeting discussions.

NL disclosure index

In The Netherlands, budgeting has been based on accruals budgeting for quite some time. In the Dutch case, I have used two indices. One based on completeness of documents, based on the legal requirements. The other is based on a selection of performance indicators and used to give an impression of performance information available. The weight attributed to the different items in the disclosure index developed here are the (arbitrary) choices of the researcher, to make a comparison between the different municipalities possible¹⁷. The selection of performance indicators in the Dutch budgeting documents is also a choice made by the researcher. I chose to look for specific performance indicators in different policy domains that either are related to income provision, level of taxation or service level and which can be presented SMART. Although the choice can be discussed, the indicators selected are related to fees generally discussed (e.g. Parliament, 2007) or collected by a peer group in the domain of social security (Divosa, 2007: 32-35).

The scores in the Dutch disclosure index are related to the document they are presented in. Information in the 2007 budget is valued higher than information of a 2006 or even older budget. In assessing performance information explicit ambitions are valued, not a mere extrapolation of realization. Disclosing both the most recent realization and ambitions generates the highest possible score.

Code	Description	Possible scores
COMPLETENESS		
NL_Com_Prog	Availability of program budget costs of programs disclosed?	0: no 1: old doc 2: 2007 doc
NL_Com_Fin	Availability of full financial budget full overview of budget available?	0: no 2: old doc 4: 2007 doc
Consistency	Programs 2005 are the same as those in 2007	0: no 5: yes
Availability_JV	Is an annual report available	0: no 2: old doc 5: 2007 doc
Availability_Bud	Is a budget document available?	0: no 2: old doc 5: 2007 doc
Li_invest	Listing of investments is a full list of investments available to be realised in the fiscal year available and is it split up in investments with economic returns and those with only non-financial returns?	0: no 5: not split up 10: split up ec and social
Summ	Availability of summary A summary on the budget plan that explains to some extent the ambitions of the local government	0: no 5: only figures 10: incl. programs

¹⁷ Local courts of audit usually express their opinions in qualitative rather than in quantitative terms as they generally need not to compare with other municipalities.

Code	Description	Possible scores
PRESCRIBED SECTIONS RELATED TO FACTORS THAT MAY AFFECT THE FINANCIAL POSITION IN THE LONG RUN		
NL_Com_Tax	Document on local taxes prescribed section on level of local taxes; no assessment of contents	0: no 1: old doc 2: 2007 doc
NL_Com_Weer	Document on equity section on Financial resilience; no assessment of contents here; see below	0: no 1: old doc 2: 2007 doc
NL_Com_Cap	Document on maintenance of investments section on level of maintenance of local governments assets such as roads, buildings, and the like; no assessment of contents	0: no 1: old doc 2: 2007 doc
NL_Com_Liq	Document on Debt en Liquidity section on treasury management	0: no 1: old doc 2: 2007 doc
NL_Com_OP	Document on operations section on developments in the organisation that may affect operations	0: no 1: old doc 2: 2007 doc
NL_Com_AP	Document on associated parties information on affiliated and associated parties and risks related to them	0: no 1: old doc 2: 2007 doc
NL_Com_Gro	Document on Land development purchase, development and sale of land on behalf of developing building sites or infrastructure	0: no 1: old doc 2: 2007 doc

Performance indicators		
PI_WWB	Disclosure of # clients WWB in budg2007 Number of clients for last resort income benefits	0: no 1: real. 2005 2: norm 2007 3: both real and norm
PI_Reint	Disclosure of # clients to be reintegrated Ambition to help unemployed to find a new job in terms of number of individual programs to be realised	0: no 1: real. 2005 2: norm 2007 3: both real and norm
PI_Waste	Disclosure of vol. of waste processed Indicator of either separating recyclable waste or targets to reduce waste in general were accepted	0: no 1: real. 2005 2: norm 2007 3: both real and norm
PI_build	Disclosure # building licences Level of applications for licences to be processed	0: no 1: real. 2005 2: norm 2007 3: both real and norm

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