

Insight into State-owned Assets

The most normal
thing in the world?

2022



Netherlands
Court of Audit

Preface

This publication follows on from previous reports concerning the information provided in budgets and accounts. The primary purpose of those reports is to strengthen parliament's ability to approve the budget. In essence, the reports ask: What information is needed to determine whether the government spends public money economically, efficiently and effectively?

Previous reports include: *Traceability of Multiannual Financial Figures on a Change of Government* (2016, in Dutch), *Insight into Additional Funding of the Third Rutte Government* (2018), *Insight into Public Funds – Part 1* (2016) and *Part 2* (2019) and *Budgetary Leeway in the Forecasts? Multiyear forecasts audited* (2021).

1. Main features of the audit

1.1 Why did we carry out this audit?

The Court of Audit has investigated the assets owned by the State of the Netherlands. We carried out the audit because current accounting rules do not require ministers to disclose many of the assets they own in their annual reports. The ministers themselves, furthermore, do not keep aggregate statements of all their assets.

The ministries' trial balances disclose only financial assets, such as the participating interests in Gasunie and the Port of Rotterdam, loans to Greece and tax assets. All their other assets are not known to members of parliament, the public or enterprises. This is completely at odds with the principle that all public money should be subject to public accountability. Non-financial state-owned assets, after all, are public money that has taken on a tangible form. In this regard, central government is lagging behind virtually all other public sector organisations, such as provinces, municipalities, hospitals and schools.

Many state-owned assets are expensive assets and essential social facilities that the public and enterprises rely upon, such as roads, bridges and locks. They include assets, such as defence equipment, nature reserves, the cultural heritage collection and the COVID-19 vaccine stock, that enable the government to deliver collective services. They also include the many IT systems (hardware and software) and state-owned real estate without which the government cannot provide public or business services. A state balance sheet prepared by Statistics Netherlands in 2019 by way of a pilot exercise puts the value of state-owned assets at

approximately €350 billion as at year-end 2018. These assets therefore involve an enormous amount of public money.

Having and sharing insight into state-owned assets is essential, not only because parliament and society have a right to know what assets have been acquired with public money but also because costs are incurred for the assets' management and maintenance throughout their lives. Sufficient funds must be budgeted to cover these costs. If ministries do not know precisely what they own, how can they know how much management and maintenance of their assets will cost? This makes it more difficult for ministers and parliament to make well-considered decisions on the use of tax money. Without an accurate and complete insight into the number of assets and their maintenance status, an accurate assessment cannot be made of the feasibility of policy ambitions or whether budgets provide sufficient funds for the assets' management and maintenance. Investments in new assets should take appropriate account of related multiyear management and maintenance costs. Our 2018 Accountability Audit of the Ministry of the Interior and Kingdom Relations, for instance, found that no less than 75% of all IT expenditure was spent on maintenance of the IT landscape.

We have concluded in several audits in recent years that lack of insight into assets and inadequate management and maintenance budgets can significantly disrupt service delivery. Our 2020 Accountability Audit of the Ministry of Defence, for instance, found that the minister did not have a complete insight into the state of the defence organisation's real estate and that the management and maintenance budget had been inadequate for many years. Without the defence organisation's real estate, the armed forces cannot function effectively; appropriate accommodation for people and materiel underpins the armed forces' deployability. The 2018 Accountability Audit of the Ministry of Infrastructure and Water Management concluded that the maintenance condition of locks and bridges was more urgent than indicated by the Infrastructure Fund's annual report. In many cases, overdue maintenance temporarily reduced the availability of infrastructure. Recent restrictions on the use of the Haringvliet Bridge are also due to the limited maintenance budget. The 2018 Accountability Audit of the Ministry of Finance, finally, found that more than half of the Tax and Customs Administration's IT systems were outdated, difficult to upgrade and expensive to maintain. IT systems in use for the VAT system, for instance, were so outdated that VAT rates could not be adjusted in the years that followed.

To fulfil its task of controlling the government, parliament needs reliable information on existing and new assets and related management and maintenance costs. This

information, however, is not systematically disclosed in the ministries' budgets and accounts. Parliament's right to approve the budget is therefore compromised.

1.2 Content of this report

For these reasons, this report sketches an initial picture of the many assets that are currently not disclosed in budgets and accounts but deserve attention. We focus principally on assets owned by ministries and agencies. We do not present separately the assets owned by the ministries' participations, such as Dutch Rail (NS) and the Dutch central bank (DNB), but we do present the participations themselves as assets.

The insight is still incomplete. As the ministries themselves do not keep aggregate asset statements, we cannot be certain that we have identified all their assets. The statements that are available, moreover, do not disclose the assets' current values. Asset valuation would require further study and should be based on pre-defined principles.

1.3 Recommendations

The government must now decide what steps to take in the light of our audit. We recommend that the statements prepared for each ministry be completed, updated and provided with valuations. Ministers can then use the statements to keep track of the state and condition of their assets and disclose them in, for instance, a regular section of their annual reports. This would lay a solid foundation to gradually expand the current trial balances and develop them into fully-fledged ministerial balance sheets. The information would then allow the government and parliament to take well-considered decisions on the use of public money, ministers would be in a better position to organise the management of public assets more responsibly and parliament would be better able to exercise its right to approve the budget.

State-owned assets are of great public interest and involve a great deal of public money. They therefore deserve a prominent place in public accounts. Virtually every organisation of any significance in the Netherlands must systematically provide an insight into its assets, but state-owned assets disappear into the mist a year after they have been acquired. Better insight into the assets would strengthen decision-making, management and discharge, and meet the need for the prudent use of public money. Furthermore, it would increase public and business trust in the accounts and thus in the performance of central government. In a time when ever louder calls are being made for integrated thinking and integrated accountability by public

organisations, it should be the most normal thing in the world that ministers report transparently on their assets. We therefore recommend that information on assets be raised to at least the same level as the information provided by other organisations, both public and private.

Finally, this report can also be seen as a contribution to the evaluation of the reporting and accounting system that central government launched in 2021.

1.4 The government's response and the Court of Audit's afterword

In his response to our report, the Minister of Finance undertook to consider the report in the government's evaluation of the reporting and accounting system. We compliment the government on its intention to start with those parts of government that make large investments. However, we think more needs to be done. For a uniform reporting and accounting system and complete insight into assets, it is necessary to make progress in other parts of government, too. The minister does not say whether or when such progress can be expected.

2. State-owned assets

2.1 Overall insight

Figure 1 shows that all ministries have assets: from IT hardware and software to installations and vehicles. Furthermore, the Ministry of the Interior and Kingdom Relations (through its Central Government Real Estate Agency) is not the only ministry to own land and/or buildings, so do nearly half of the other ministries. The Ministry of Foreign Affairs, for instance, owns embassies, consulates and official residencies and the Ministry of Defence owns air bases, barracks, training grounds and depots. Despite the limitations of the audit, we now have a more complete understanding of the assets than in the past.

Figure 1: Types of assets by ministry

All ministries have assets

Type of asset	Ministries											
	AZ	BZ/BHOS	BZK	Defence	EZK	Finance	I&W	J&V	LNV	OCW	SZW	VWS
IT (software)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IT (hardware)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Concessions			✓		✓							
Data and databanks			✓		✓	✓		✓		✓		
Land and buildings		✓	✓	✓			✓		✓			✓
Infrastructure				✓			✓					
Facilities (stocks, etc.)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Vehicles, vessels and aircraft		✓	✓	✓	✓	✓	✓	✓				✓
Art and cultural goods	✓	✓	✓	✓		✓	✓			✓		
Participations		✓	✓		✓	✓	✓					
Loans granted		✓	✓	✓	✓	✓	✓		✓	✓		
Capital injections						✓						
Revolving funds		✓	✓	✓	✓					✓		
Derivatives				✓		✓						
Stocks			✓	✓	✓			✓				✓
Projects/work in progress			✓				✓	✓				
Accounts receivable	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Cash and cash equivalents	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Key

- AZ** General Affairs
- BZ/BHOS** Foreign Affairs/ Foreign Trade and Development Cooperation
- BZK** Interior and Kingdom Relations
- EZK** Economic Affairs and Climate Policy
- I&W** Infrastructure and Water Management
- J&V** Justice and Security
- LNV** Agriculture, Nature and Food Quality
- OCW** Education, Culture and Science
- SZW** Social Affairs and Employment
- VWS** Health, Welfare and Sport

 Owned by the ministry
 Significant and/or typical asset owned by the ministry

2.2 Statement of state-owned assets

The following statement of state-owned assets is not yet complete. The report therefore provides only an overall picture of state-owned assets. Given the absence of aggregate statements at the ministries and the limitations of the audit, it is not known for certain whether all assets are listed. We did not audit the information provided by the ministries.

The right-hand column of the statement shows the assets and values disclosed in the most recent state balance sheet (2018). Asset classification in the state balance sheet, however, is not fully consistent with the classification we used in our audit. Some caution should therefore be exercised when making comparisons.

Statement of state-owned assets

ASSETS	State balance sheet 2018
Fixed assets	
Intangible fixed assets	
<p>Software</p> <ul style="list-style-type: none"> • Software purchased (government-wide) • Software developed in-house (various ministries) • Software under development (various ministries) • Corona-related applications (VWS) 	<p><i>Computer programs (incl. databanks)</i> <i>(value in state balance sheet as at year-end 2018: €2.6 billion)</i></p>
<p>Awardable concessions</p> <ul style="list-style-type: none"> • Royalty schemes (DEF) • Awardable concessions, underground storage (gas, gas oil, nitrogen, salt water and CO₂) (EZK) • Awardable concessions, broadcasting frequencies (EZK) • Awardable CO₂ emission allowances (EZK) • Awardable mining concessions (oil and gas) (EZK) • Motorway service stations (BZK/RVB) 	
<p>Other intangible fixed assets</p> <ul style="list-style-type: none"> • Modellen (EZK/CPB) • Databanken (JenV/NFI, EZK/CBS) • Basisregistraties (BZK, FIN) • Centrale eindtoets (OCW) 	<p><i>Research and development, (value in state balance sheet as at year-end 2018: €1.5 billion)</i></p>
Tangible fixed assets	
<p>Land and buildings</p> <ul style="list-style-type: none"> • Central Government Real Estate Agency, real estate (BZK/RVB) • Specialty-system real estate (various ministries) • Defence real estate, sites and depots (DEF) • Laboratories (DEF, VWS/RIVM, LNV/NVWA and J&V/NFI) • Tenant farms and farm real estate (BZK) • State domains (BZK) • Missions network: embassies, consulates and official residences (BZ) • Land and buildings, Rijkswaterstaat (I&W/RWS) • Land and buildings, KNMI (I&W/KNMI) • Farmland (I&W) • Land and historical buildings, Staatsbosbeheer (LNV) 	<p><i>Houses, business premises (value in state balance sheet as at year-end 2018: €15.96 billion);</i></p> <p><i>Land under houses, land under business premises, farmland, conveyancing fees, (value in state balance sheet as at year-end 2018: €6.8 billion)</i></p>
<p>Infrastructure</p> <ul style="list-style-type: none"> • Main road network (I&W/RWS) • Main waterway network (I&W/RWS) • Main water system (I&W/RWS) • High speed infrastructure substructure (I&W) • Optical fibre network (NAFIN) (DEF) • Pipeline network, DPO (DEF) 	<p><i>Civil, road and marine engineering works (value in state balance sheet as at year-end 2018: €73.7 billion)</i></p>

Installations and inventories

- Workplaces, etc. (BZK/FMH/SSC-ICT; government-wide)
- Office inventories (government-wide)
- Building inventories and installations (BZ, BZK/RVB, J&V/IND/OM/DJI, OCW/NA)
- Pumping installations (DEF)
- Measuring equipment, Telecom Agency (EZK)
- Capital assets, Movable Property Agency (FIN)
- High-volume scanners, Tax and Customs Administration (FIN)
- Scanning equipment, Customs (FIN)
- Physical site infrastructure, DJI (J&V/DJI)
- Laboratory equipment (DEF, VWS/RIVM, LNV/NVWA and J&V/NFI)
- Interiors, scanners and deacidification installation, National Archive
- Equipment, Government Cleaning Organisation (SZW/RSO)

Machinery and installations (in the state balance sheet, this item also includes Defence materiel) (value in state balance sheet as at year-end 2018: €9.8 billion)

Vehicles, vessels and aircraft

- Main weapon systems, Navy (DEF)
- Main weapon systems, Army (DEF)
- Main weapon systems, Airforce (DEF)
- Main weapon systems, ministry-wide (DEF)
- Other Defence materiel (DEF)
- Weapon systems-related and other spare parts (DEF)
- Vehicles (BZ, BZK/UBR, BZK/FMH, EZK/AT, FIN/DRZ/BD/ Customs/FIOD, J&V/DVO/DJI, I&W/RWS, LNV/NVWA, VWS/RIVM)
- Vessels, Government Shipping Agency/Coastguard (I&W/RWS)
- Government aeroplane (I&W)
- Installations and inventories, RWS and KNMI (I&W)
- Vehicle fleet, Fire brigade, Caribbean Netherlands (J&V)
- Vehicle fleet, Police force, Caribbean Netherlands (J&V)

The weapon systems are entered in the state balance sheet under the item Machinery and installations

Vehicles, vessels and aircraft (value in state balance sheet as at year-end 2018: €1 billion)

IT-hardware

- Computer centres (EZK/DICTU, FIN/Tax and Customs Administration, BZK/SSC-ICT, OCW/DUO)
- IT equipment (various ministries)
- Desktop PCs, laptops, tablets, mobile phones, etc. (BZK/SSC-ICT; EZK/DICTU; government-wide)
- IT systems for the main road network, main waterway network, main water system and high speed infrastructure (I&W/RWS)

Computers and telecommunications equipment (value in state balance sheet as at year-end 2018: € 0.5 billion)

Art and cultural goods

- National cultural heritage collection (OCW/RCE)
- National Archive collection (OCW/NA)
- Works of art, AZ (AZ)
- Art collection, BZ (embassies, etc.)
- Palace furniture (BZK/RVB)
- Military heritage collection (DEF)
- Libraries (DEF)
- National collection, Tax and Customs Administration Museum (FIN)
- Art collection, KNMI (I&W)

Work in progress

- Work in progress, accommodation projects (BZK/RVB)
- Work in progress, Rijkswaterstaat (I&W/RWS)
- Work in progress, DJI workshops (J&V/DJI)

Other tangible fixed assets

- Training equipment (simulators) (DEF)
- Post room equipment, Tax and Customs Administration (FIN)
- Diving equipment, Customs (FIN)
- Weapons, Customs and FIOD (FIN)
- Weapons, etc., National Criminal Investigation Department and DJI staff (J&V)
- Miscellaneous

Other tangible fixed assets

(value in state balance sheet as at year-end 2018: € 0.15 billion)

Financial fixed assets**Participations**

- Air France-KLM (FIN)
- BNG Bank (FIN)
- Covra (FIN)
- FMO (FIN)
- Nederlandse Gasunie (FIN)
- Havenbedrijf Rotterdam (FIN)
- Holland Casino (FIN)
- Invest-NL (FIN)
- KLM (FIN)
- Nederlandse Loterij (FIN)
- Nederlandse Investeringsbank Ontwikkelingslanden (FIN)
- Nederlandse Spoorwegen (FIN)
- Nederlandse Waterschapsbank (FIN)
- Luchthaven Schiphol (FIN)
- Tennet Holding (FIN)
- Thales Nederland (FIN)
- Ultra Centrifuge Nederland (FIN)
- De Nederlandsche Bank (FIN)
- ABN AMRO Group (FIN)
- Volksbank Holding (FIN)
- SRH Holding (FIN)
- Council of Europe Development Bank (BZ)
- Asian Development Bank (BHOS)
- African Development Bank (BHOS)
- Inter-American Development Bank (BHOS)
- Inter-American Investment Corporation (BHOS)
- INSTEX (BHOS)
- Saba Statia Cable System B.V. (SSCS) (BZK)
- N.V. NOM Investerings- en Ontwikkelingsmaatschappij voor Noord-Nederland (EZK)
- N.V. Industriebank, Limburgs Instituut voor Ontwikkeling en Financiering (LIOF) (EZK)
- Brabantse Ontwikkelingsmaatschappij (BOM Capital I BV)
- BOM BDFI BV (EZK)
- Ontwikkelingsmaatschappij Oost Nederland N.V. (Oost-NL) (EZK)

Shares and other participating interests

(value in state balance sheet as at year-end 2018: € 71.7 billion)

- ROM InnovationQuarter (EZK)
- NPEX BV (EZK)
- Investeringsfonds Zeeland BV (EZK)
- ROM Regio Utrecht BV (EZK)
- Energie Beheer Nederland B.V. (EZK)
- GasTerra BV (EZK)
- *Saba Bank Resources NV* (EZK)
- Groeifonds Flevoland (EZK)25
- ROM InWest (EZK)26
- Railinfratrust + subsidiary, ProRail (I&W)
- Dutch Caribbean Air Navigation Service Provider (I&W)
- Winair NV, St Maarten (I&W)
- Intravacc (VWS)

Loans

- Loans via BHOS to, inter alia, development cooperation countries (BZ/BHOS)
- Loans to the Dutch Good Growth Fund (BHOS)
- Loan to the Private Infrastructure Development Group (BHOS)
- Loan to ABP and Koninklijke Scheldegroep (DEF)
- Credit arrangement, Netherlands Enterprise Agency (EZK)
- Loans to Greece, KLM and ABN AMRO (FIN)
- Loans to Aruba, Curaçao and St Maarten (BZK/KR)
- Treasury banking loans to agencies, RWTs and other participants (FIN)
- Mortgage loan, Winair N.V. (I&W)
- Loans to Wageningen Research (LNV)
- Student loans (OCW/DUO)

*Loans (long-term and current)
(value in state balance sheet as
at year-end 2018: € 84.7 billion)*

Capital injections

- International Bank for Reconstruction and Development (IBRD) (FIN)
- European Financial Stability Facility (EFSF) (FIN)
- European Stability Mechanism (ESM) (FIN)
- European Investment Bank (EIB) (FIN)
- European Bank for Reconstruction and Development (EBRD) (FIN)
- International Finance Corporation (IFC) (FIN)
- Multilateral Investment Guarantee Agency (MIGA) (FIN)
- Asian Infrastructure Investment Bank (AIIB) (FIN)

Receivables (long-term)

- *Export credit insurance (FIN)*
- *Other receivables (FIN)*
- *Student loans (OCW/DUO)*
- *Receivable, Social Insurance Bank*

*Debt instruments (long term and
current) (value in state balance
sheet as at year-end 2018:
€3.2 billion)
Most revolving funds are entered
in the state balance sheet under
loans*

Revolving funds

- Massif Fund (BHOS)
- Building Prospects Fund (BHOS)
- International Finance Corporation GAFSP (BHOS)
- Fonds Duurzaam Funderingsherstel (FDF) (BZK)

- National Energy Savings Fund (NEF) (BZK)
- Codemo (DEF)
- Dutch Venture Initiative (EZK)
- Innovation Credit (EZK)
- Qredits (EZK)
- Early phase financing (EZK)
- Future Fund Credit for Research Facilities (EZK)
- Smart Industry (EZK)
- Seed Capital (EZK)
- Restoration Fund Mortgages (OCW)
- Restoration Fund-Plus Mortgages (OCW)
- Film Fund (OCW)
- Revolving fund, Antilles (OCW)
- Sustainable Schools Fund (OCW)
- Churches secondary function loan (OCW)
- National monuments preservation (OCW)
- Talent loan (OCW)
- Bad weather fund (OCW)

Derivatives

- Interest rate derivatives (FIN)
- Foreign exchange derivatives (DEF)

Financial derivatives

(value in state balance sheet as at year-end 2018: €8.2 billion)

Current assets**Stocks**

- Mineral reserves (gas, oil, rock salt) (EZK)
- Strategic oil reserves (EZK/COVA)
- Soil materials (shells, sand and gravel) (BZK/RVB)
- Work in progress, Central Government Real Estate Agency (BZK/RVB)
- Identification cards (BZK/RvIG)
- Real estate for sale (BZK/RVB)
- Ammunition, medical goods, clothing and equipment (DEF)
- Documents, IND (J&V/IND)
- Warehouse equipment, DJI (J&V/DJI)
- Medicinal cannabis (VWS/CIBG)
- Vaccines, national vaccination programme (VWS/RIVM)
- COVID-19 vaccines (VWS)
- Medical aids and equipment, COVID-19 pandemic (VWS)

*Oil and gas reserves (value in state balance sheet as at year-end 2018: €18.7 billion);
Stocks (value in state balance sheet as at year-end 2018: €1.3 billion);*

Work in progress

- Projects (BZK/RVB)

Receivables (current), prepayments and accrued income

- Taxes and contributions, Tax and Customs Administration (FIN)
- Prepayments and recoverable benefits (BZK, SZW, VWS)
- Export credit insurance
- Outstanding claims (J&V)
- Student loans (OCW)
- Debtors (various ministries)
- Prepayments (government-wide)
- Off-budget receivables (government-wide)
- Other receivables (government-wide)
- Interest receivable (FIN)

Trade credits, prepayments and accrued income (value in state balance sheet as at year-end 2018: € 46.7 billion)

ASSETS	State balance sheet 2018
Derivatives	
<ul style="list-style-type: none"> • Foreign exchange derivatives (DEF) • Interest rate derivatives (FIN) 	
<hr/>	
Cash and cash equivalents	<i>Cash and deposits</i>
<ul style="list-style-type: none"> • Cash (government-wide) • Bank (government-wide) • Current account, RHB (government-wide) 	<i>(value in state balance sheet as at year-end 2018: €4.4 billion)</i>
<hr/>	
Prepayments and accrued income	<i>See receivables, prepayments and accrued income</i>
<hr/>	
TOTAL ASSETS	Value in state balance sheet as at year-end 2018: €350 billion
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3.

Added value of insight into state-owned assets

3.1 Introduction

If it has its house in order, an organisation will know what it owns. Information on assets is a compulsory feature in nearly every organisation's annual report and accounts, but not those of the ministers in central government. If ministers also accounted for their assets they would come into line in this respect with the private sector, other parts of the Dutch public sector – including the provinces and municipalities – and also with most other central governments in the European Union. Furthermore, they would respect the principle that public money should be subject to public accountability. This principle applies even if the public money has taken on a tangible form.

The annual reports of virtually every organisation include a balance sheet showing its possessions (assets) and debts (liabilities). Public organisations use balance sheets to show what assets they own and how much public money (tax revenues and/or debts) is used to acquire the assets.

An aggregate statement of assets per ministry would be a valuable basic document to inform debates and decision-making on policy, operational management, and associated investment, operating and maintenance budgets. It could be used by politicians and civil servants, by Financial and Economic Affairs departments, the ministries' audit committees, and not least by parliament because public assets are acquired with public money and parliament has the right to approve the budget.

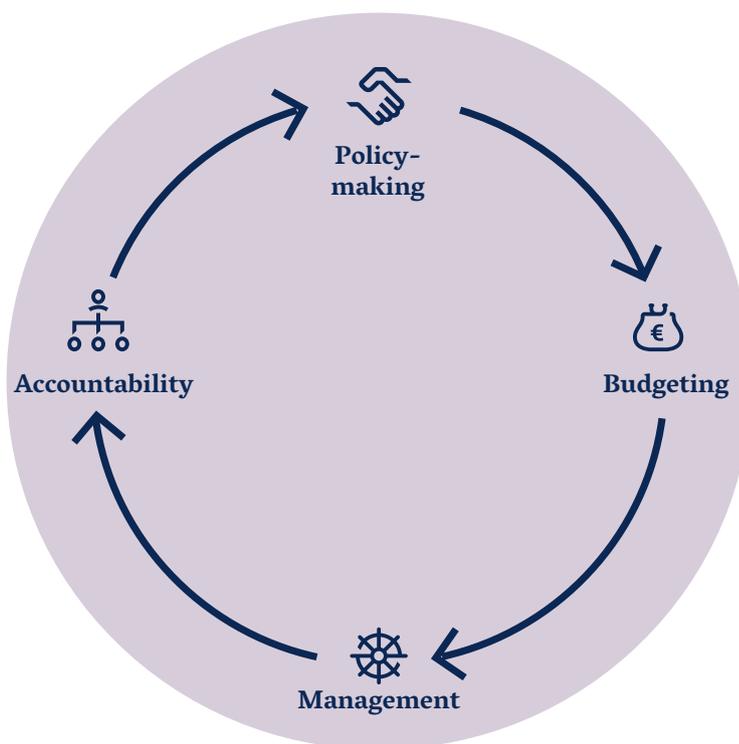
The statement could also be used to prepare the reports ministers must submit to parliament to account for their asset management and to report transparently to the public and enterprises.

Good insight into the state and condition of assets is useful and practical in order to:

- prepare policy decisions correctly (section 3.2) and set aside necessary budgets (section 3.3);
- fulfil ministerial responsibility for the management of public assets and thus improve the ministries' performance (section 3.4);
- render account for public assets and the use of public money (section 3.5);
- gain an insight into the efficiency of policy and operational management (section 3.6);
- enable Statistics Netherlands to compile reliable statistics (section 3.7).

Figure 2: *Main goals of insight into state-owned assets*

Insight into assets serves multiple goals



In the following sections we look more closely at the added value of improving insight into state-owned assets.

3.2 Policy-making

Assets are a means to achieve policy ambitions. Insight into the assets is necessary to determine whether their size and maintenance condition match the policy ambitions. If there is little or no insight, policy ambitions can be unrealistic and opportunities can be missed.

Ministers must prepare their policies carefully and implement them efficiently, effectively and prudently. Parliament approves the policies and oversees their implementation. Some of the questions ministers and parliament can ask are:

- What investments are needed to continue current policy or introduce new policy, and what demands will the investments make on future budgets (to cover management and maintenance costs)? The answer will determine the actual cost of current and new policies.
- What are the social costs and benefits of keeping the current assets and acquiring new ones?
- Will all the assets be needed in the future to implement policy and carry out associated operational management?
- How will a review or the termination of current policy, for instance to achieve sustainability ambitions, affect the assets?

Example: Defence real estate and deployability of the armed forces

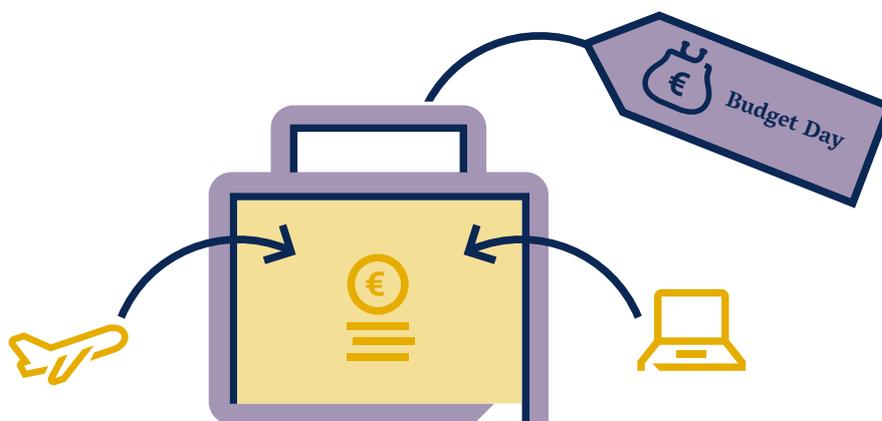
The final report of the Interministerial Policy Review (IBO) of the Ministry of Defence's real estate management looked at the ministry's real estate in the light of the deployability of the Netherlands' armed forces: *'The real estate portfolio comprises a great diversity of buildings and infrastructure that accommodates personnel, weapons and ammunition, training facilities and training grounds, and supports operational processes, sport and recreational facilities and more. To fulfil these functions correctly, the real estate must be in order. In other words, the real estate portfolio must be efficient, future-proof, sustainable and permanently affordable, and moreover comply with legislation and regulations.'* The IBO concluded that managing the current real estate portfolio with its substantial overdue maintenance presented the ministry with a formidable challenge.

3.3 Budgets

Ministers must have information on the value of their assets and their maintenance condition if their budget forecasts are to allow for additional investments and the long-term management and maintenance costs incurred for all present and future assets. Parliament in turn needs complete information to exercise its right to approve the budget correctly. Approving an investment usually entails committing to management and maintenance expenditure throughout an asset's entire life cycle. There is a risk that investments with a relatively low initial cost ultimately require relatively high management and maintenance costs. Another risk is that the postponement of maintenance leads to higher costs in later years (penny wise, pound foolish). Central government does not systematically include maintenance information in its budgets. This is in contrast to what local authorities are required to do.

Figure 3: Budgets should include complete information on assets and their maintenance costs

Complete information on assets improves budget decisions



Example: Maintaining the Main Road Network

In our report entitled *Maintaining the Main Road Network* (2014), we looked at the inconsistent and sometimes summary information received by the House of Representatives on the road maintenance budget. Local authority budgets must cover the maintenance of capital assets, including infrastructure. By law, local road managers (provinces and municipalities) have to inform the provincial and municipal councils of their maintenance of the road networks. The information includes the required maintenance level (the ambition level), the maintenance condition (including overdue maintenance) and the associated

costs. The provincial and municipal councils can then take decisions on the ambition level and associated maintenance costs. They thus have a better understanding of the financial state of road maintenance than the House of Representatives does.

In our report entitled *Budgetary Leeway in the Forecasts? Multiyear forecasts audited* (2021), we concluded that the assumptions and data used in forecasting models, including asset valuation models, were not always up to date or accurate.

Example: real estate management

In our 2020 Accountability Audit of the Ministry of Defence (2021) we found that the minister still did not have complete insight into the state of the ministry's real estate. Furthermore, the management and maintenance budget had been inadequate for many years and was applied chiefly to overcome malfunctions and urgent problems. This has been at the expense of preventative maintenance, which has been inadequate for many years, and has added to the volume of overdue maintenance. Internal estimates of the maintenance budget for 2022 and later years have declined dramatically even though the current budget is already inadequate. We qualified the lack of progress and the absence of insight into and oversight of the entire real estate portfolio, in combination with shortcomings in real estate management processes and the budgetary problems, as a serious shortcoming.

Example: Maintenance of the main waterway network

Without up-to-date, reliable and complete information on the main waterway network, it is impossible to estimate the management and maintenance budget accurately. An independent assessment of Rijkswaterstaat's estimating system in 2020 found that records of the land and waters managed by Rijkswaterstaat were inadequate, incomplete and often unreliable. In our report, *Maintaining the Main Waterway Network* (2015), the Court of Audit had pointed out that insight into the assets under management was inadequate and called on Rijkswaterstaat to improve the quality of the information on the land and waters it managed. We also noted that parliament needed information on the maintenance budget in order to assess whether it was adequate. We therefore thought that the Minister of Infrastructure and Water Management must offer parliament an insight into future changes in the extent and quality of the main waterway network, for instance by means of data on bridges and locks that are due for replacement and the necessary funds relative to the available budget.

Good insight into assets also improves the distinction between consumptive expenditure on the one hand and capital investments in structural improvements on the other. The 16th Budget Margin Study Group is an advocate of such a distinction, not only to improve decision-making but also because investments in structural improvements prevent the premature cancellation of projects due to, for instance, spending cuts. The considerable savings realised by cancelling capital investments might look attractive in the short term, but the missed financial and social benefits do not become apparent until later. Investment budgets, however, do not always allow for the associated maintenance costs.

3.4 Management

Ministers must have an insight into their assets in order to oversee and fulfil their statutory responsibilities for asset management and for controlled and planned maintenance. Insight also improves management of the risk of losses due to damage, theft and other unforeseen events. Parliament needs this insight to check whether ministers fulfil their statutory responsibilities.

Good asset management is not an end in itself but a necessary means to fulfil a ministry's tasks and to make prudent use of public property acquired with public money. Limited insight into the assets can frustrate the performance of those tasks. Buildings or tanks that are not maintained lose their value.

Example: management of IT systems

The ministries' IT systems (hardware and software) are indispensable for the government to deliver public services. They must work correctly and be properly maintained. This begins with an insight into all the IT infrastructure and applications and effective planning and performance of maintenance work. In our 2018, 2019 and 2020 Accountability Audits of the Ministry of the Interior and Kingdom Relations, we found that insight into the ministries' IT landscapes differed from one CIO to another and that the information provided to the House of Representatives on the IT landscape was open to improvement. We also found that political and public interest in IT focused on renewal projects in general – and their failure in particular. Less is communicated about management and maintenance, even though they swallow up three-quarters of the budget. The Central Government CIO System Decree states that the ministries' CIOs must have an insight into their ministries' IT landscape. Such an insight underpins maintenance and renewal plans that ensure that systems work correctly both now and in the future and thus guarantee the government's delivery of public services.

Example: the central government real estate portfolio

Most central government real estate is managed by the Central Government Real Estate Agency (RVB). Managing more than 11.7 million m² of buildings and 91,057 hectares of land, the RVB is the biggest real estate manager in the Netherlands. The real estate market is characterised by large sums of money and lack of transparency: valuations are subjective and transactions are complicated. This increases the risk of abuse and fraud. In our report entitled *Housing by the Central Government Real Estate Agency (2015)*, we observed that accurate and complete real estate records and insight into all the costs incurred for the real estate were preconditions for the correct management of the portfolio. The financial information in the records must be appropriate to manage the various financial and social goals that central government pursues through its real estate. We called for greater transparency on how financial and social goals were weighed up against each other when decisions were taken on real estate. In the same report and also in our 2017 Accountability Audit of the then Ministry of Housing and the Central Government Sector, we wrote that insight into the current value of central government real estate was conducive to, among other things, the efficiency of decision-making on real estate. In our 2019 Accountability Audit of the Ministry of the Interior and Kingdom Relations (BZK), however, we found that the RVB did not have sufficient insight into the book value and market value of the real estate portfolio or of its size. Information was not available or was fragmented across many different accounts. The picture was accordingly far from complete and both management and accountability were compromised. We concluded that measures to mitigate common risks in sales procedures, such as conflict of interest, manipulation of valuations, leaks of confidential information and facilitation of criminal activities, were open to improvement. In the 2020 Accountability Audit of the Ministry of BZK we found that the RVB had started working with a source system that contained full information on the entire real estate portfolio: the Central Real Estate Register. We also found that the RVB had followed up on the recommendations concerning sales transactions we had made in the 2019 Accountability Audit of the Ministry of BZK.

3.5 Accountability

Ministers must have an insight into their assets in order to account in their annual reports for the economy, efficiency and effectiveness of their collection and use of public money. Parliament relies on the annual reports to grant ministers discharge for their financial management.

The use of public money does not end when assets are acquired. Public money is tied up in the assets – non-financial state-owned assets are public money that has taken on a tangible form. Furthermore, assets are a source of maintenance costs. Concessions and similar assets represent a right to future revenues for the treasury. Asset use often involves considerable public interests, such a security and accessibility. This is true not only for defence materiel, roads and bridges but also for IT systems.

Insight and information on the assets and asset changes during the financial year are essential to account publicly and in full for the origin and use of public money. Full accountability strengthens the foundations for discharge and promotes the dialogue between ministers and parliament about asset management and resultant policy outcomes. The information therefore strengthens democratic control of asset management and informs debate of subsequent budgets. Public transparency also benefits from information on all the assets that are acquired using public money and that are held in the public interest.

Figure 4: Accounting documents should include a balance sheet disclosing all financial and non-financial assets

Full information on assets promotes the dialogue between ministers and parliament



Furthermore, the attention that full accountability requires and generates can encourage and help ministers to fulfil their asset management responsibilities (see section 3.4).

3.6 Assessment of efficiency

Assets that are used to implement policy and perform operational management incur depreciation charges and management and maintenance costs. Insight into the assets and their use is therefore essential if ministers and parliament are to understand how efficient the ministries' policies and operational management are and to know how much they have cost and will cost. Such insight supports the efficiency ambitions and the activities of the Insight into Quality initiative and improves the information on efficiency that ministers must provide under section 3.1 of the Government Accounts Act when putting forward proposals and intentions and giving undertakings. A poor understanding of asset efficiency can be a cause of expensive decisions.

Example: Defence cost savings

In our report *Out of Sight* (2021) we noted that the Ministry of Defence did not have an insight into the operating cost of its materiel. It was therefore not always possible to monitor whether proposed spending cuts had actually been made. We also wrote that it was uncertain whether the budget actually covered the cost of each weapon system. To enable and manage each system's operation and thus deliver the level of preparedness promised by the minister, more insight is needed into the operating figures. This would also improve accountability for the budget and increase insight into the efficiency of government expenditure.

3.7 Compilation of statistics

Statistics Netherlands (CBS) also needs reliable information on the value of assets and asset changes to compile several important statistical series.

Under EU rules, the CBS periodically reports to the European Commission's statistical office, Eurostat, on the public deficit, public debt, public investments and the like. It also applies statistical methods to prepare the annual government balance sheet, which presents the financial and non-financial assets (property, debts and capital) of the government sector. The government balance sheet is included in the Budget Memorandum.

The Central Government Budget Regulations 2021 provide a model statement that ministries must complete in order to report asset balances and asset changes to the

CBS. Our audit, however, found that, with the exception of the agencies, ministries had not completed these statements in recent years. The reason for this is that the model asset statement is not fully compatible with the commitment-cash accounting system used in central government and the CBS consequently rarely if ever received completed statements from the ministries. It has accordingly stopped requesting them.

As it no longer receives the statements, the CBS compiles the information it needs for the government balance sheet from the ministries' trial balances and files with all the ministries' transactions (the 'cash outcomes'). The CBS draws on these sources to find relevant data for its statistics, including data on assets.

Inadequate asset records and reports impede the CBS's work. The more complete, reliable, timely and consistently the ministries record and report changes in their assets, the better and more efficiently the CBS can compile statistics. Ministries should therefore record all changes in their assets correctly, for instance in asset accounts that disclose not only acquisitions and disposals but also gifts, debt waivers, receivables, and disposals that do not generate revenue. As the CBS currently does not receive this information systematically from the ministries there is a risk that it misses relevant information.

The ministries themselves should therefore record and report their asset balances and asset changes correctly, with a view to both their primary responsibility for asset management and the importance of having complete, timely, reliable and consistent statistics. Eurostat considers the Ministry of Finance's preparation of a state balance sheet to be 'a key input to the statistical compilation process'. The European Commission urges all public organisations in the member states to keep accrual-based accounts so that it can compile reliable and consistent EMU statistics. Such accounts include information on assets.

Government and state balance sheet

The state balance sheet was introduced by finance minister Piet Lieftinck in 1947 and discontinued by finance minister Jeroen Dijsselbloem as from 2013 because the CBS had decided to publish an annual government balance sheet as from 2014. The government accordingly thought a state balance sheet was no longer needed. The state balance sheet was a statement of the assets, debt and capital of the State of the Netherlands. The Advisory Committee on the Central Government Accounting System recommended in 2017 that the state balance sheet should be reintroduced. At the end of 2018, the rapporteurs on the reporting and accounting system, MPs Joost Sneller and Bart Snels, also

called for the reintroduction of the state balance sheet. The Minister of Finance therefore asked the CBS in 2019 to prepare a state balance sheet. The outcomes of this pilot exercise, with explanatory notes and clarifications, were appended to the 2020 Budget Memorandum. The 2021 Budget Memorandum, however, did not include a state balance sheet. The former state balance sheet consisted of statistical information. The government did not use it to account for its performance.

4.

Conclusions and recommendations

4.1 Introduction

All ministries have assets. Many are exceedingly expensive and essential elements of the social infrastructure that the public and enterprises depend upon, such as roads, bridges and locks. Some, such as defence materiel, nature areas, the cultural heritage collection and the stock of COVID-19 vaccines, are necessary for the government to provide collective services. Without its many IT systems (hardware and software) and real estate, the government would be unable to deliver public services. The state balance sheet prepared by Statistics Netherlands as a pilot exercise in 2019 valued the assets at approximately €350 billion as at year-end 2018.

The House of Representatives and the public, however, have little insight into the assets. The ministries, moreover, do not keep aggregated statements for internal use of all the assets they manage. The reason is simple: in contrast to what central government obliges municipalities, provinces, schools, universities, hospitals and virtually all other public organisations to do, ministers are not required to account in their annual reports for the many important assets they manage. This is at odds with the principle that public money should be subject to public accountability.

The Advisory Committee on the Central Government Accounting System, the Budget Margin Study Group, House members Sneller and Snels – in their capacity as rapporteurs for the Finance Committee – the reporting and accounting experts Van Schaik and Budding, and Eurostat have all argued that the current ministerial reports and accounts should be supplemented with information on assets and debts and that a state balance sheet should be prepared.

In this report, the Court of Audit provides an overall insight into the assets owned by each ministry based on our own audit and information provided by the ministries. Parliament does not have a complete picture of the assets. The picture we present is also incomplete. Many valuations are missing or are no longer up to date.

This report also indicates to what end the ministers, parliament and other stakeholders can use the information on state-owned assets. A good insight into the state and condition of state-owned assets would help ministers and parliament take better decisions on the use of public money. This is also relevant to parliament's right to approve the budget. It would improve the ministers' ability to organise their management of public assets responsibly, fulfil their responsibilities for policies and budgets, and increase their accountability. If ministers know what assets they own, they are better positioned to manage and maintain them correctly and perform their public tasks effectively. Finally, insight into state-owned assets would improve insight into the efficiency of policy and operational management and the compilation of reliable statistics.

In the following sections, we make a number of recommendations on how the information in this report can be applied to improve the information in budgets and accounts, to strengthen asset management and to enhance parliamentary control of budgets and accounts. The Minister of Finance and the Minister of the Interior and Kingdom Relations must take the lead in this in view of their government-wide responsibilities.

4.2 Towards systematic insight into state-owned assets

We recommend that the ministers use the statements presented in this report as a starting point to further complete, update and systematically keep ministerial asset statements. Ministers can use the statements to provide a better insight into their assets and their maintenance condition, for instance in a regular section of their annual reports. We also recommend that the ministers establish the value of their assets and keep the valuations up to date so that they know and can show how much public money is tied up in them.

We recommend that parliament use the information to control budgets and accounts and to ask whether policy goals are feasible given the available assets and their maintenance condition, whether budgets provide for conservation and maintenance and whether the ministers fulfil their statutory responsibility for asset management.

These questions should also be asked in the manual the rapporteurs of the House of Representatives' committees use to control budgets and accounts.

Figure 5: *Light should be shed on all state-owned assets*

Structural insight into all state-owned assets



4.3 From trial balances to ministerial balance sheets

Some experience in preparing ministerial balance sheets has already been gained from pilot schemes at the Ministry of Defence and the Ministry of Infrastructure and Water Management. The inviting prospect is that all ministries are letting their trial balances evolve step by step into fully fledged balance sheets. Such ministerial balance sheets could then be used to prepare state and government balance sheets.

The steps to be taken on the way to ministerial balance sheets are:

- supplementing trial balances with information on all assets;
- classifying the supplemented trial balances in accordance with generally accepted accounting principles;
- recognising assets at appropriate book values;
- adding explanatory notes, analyses and interpretations of the information presented.

Assets can be valued at historical cost or current value. Historical cost has the advantage of being more straightforward than current value, which regularly has to be updated. A disadvantage is that historical cost provides little insight into an asset's current value, especially if production or acquisition was in the distant past.

Asset valuation

Under Title 9, Book 2 of the Dutch Civil Code and the Guidelines for Annual Reporting in the Netherlands, assets can be valued at either historical cost (cost of acquisition or production) or current value.

In accordance with the Agencies Regulations, agencies must value their assets at cost of acquisition or production less cumulative depreciation and any impairments in value. The Budgeting and Accounting (Provinces and Municipalities) Decree prescribes the same valuation principle for provinces and municipalities. Other public organisations, such as educational and care institutions, generally follow Title 9, Book 2 of the Dutch Civil Code and the Guidelines for Annual Reporting in the Netherlands in accordance with the accounting principles set by the minister responsible for their sector. They, too, can therefore choose between historical cost and current value.

4.4 Consistent application of life cycle management

Section 3.4 considered how information on state-owned assets could improve the ministers' asset management. The concept of life cycle management was also mentioned with regard to the ministers' IT systems. Life cycle management is a method for the controlled and planned maintenance of assets throughout their entire life. It reveals the assets' total cost during their whole life so that cost can inform decision-making on maintenance, renewal, replacement, disposal, financing and fees. By optimising asset management in this way, more efficient use can be made of public money. A more expensive road with lower maintenance costs, for instance, can sometimes be more economical than a less expensive road with higher maintenance costs as less money will be required during the road's life. The same is true of buildings, aircraft and ships.

We recommend that all ministers apply life cycle management wherever possible in respect of all the assets they manage and that they learn from each other's experiences. The report issued by the Advisory Committee on the Central Government Accounting System presents several examples of life cycle asset management at the Ministry of Defence (Apache helicopters) and the Ministry of Infrastructure and Water Management (Rijkswaterstaat's construction and maintenance of water systems, national roads and main waterways).

Example: Maintenance of the main road network

In our audit report entitled *Maintaining the Main Road Network* (2014), we highlighted the importance of taking asset life cycles into account when setting the initial budget. All future costs must be recognised when decisions are taken on, for instance, the construction of a new road (life cycle costing). After all, the choices that are made when decisions are taken on the construction of a new road largely determine the resultant maintenance costs. During use, too, preferred and planned maintenance measures must minimise maintenance costs throughout the entire life cycle. This could mean that a longer-lasting but initially more expensive measure is taken that will earn itself back over time. We therefore urged the Ministry of Infrastructure and Water Management to be more ambitious in its 'life cycle thinking' about the maintenance of the main road network.

4.5 Conclusion

State-owned assets are of great public interest and involve a great deal of public money. They therefore deserve a prominent place in public accounts. Although nearly all organisations of any significance in the Netherlands must provide systematic insight into their assets, state-owned assets disappear into the mist the year after they have been acquired. Better insight into assets would improve decision-making, management and discharge, and strengthen the prudent use of public money. It would also increase public and business trust in the accounts and thus in the government's performance. With the call for integrated thinking and integrated accountability at public organisations growing ever louder, it should be self-evident that ministers ought to be transparent about the assets they own. We therefore recommend that our report be considered in the ongoing evaluation of the central government reporting and accounting system and that the quality of information on state-owned assets be raised to at least the same level as the information provided by other organisations, both public and private. This should be the most normal thing in the world.

5.

Response of the Minister of Finance and the Court of Audit's afterword

The Minister of Finance responded to our draft report on 1 November 2021. His response is presented in section 5.1 and our afterword in section 5.2.

5.1 Response of the Minister of Finance

On behalf of the government I offer my response to the report, *Insight into State-owned Assets*. I read your report with interest and will consider it during the evaluation of the government's reporting and accounting system that is currently being carried out and is expected to be presented to the House of Representatives in the first quarter of 2022.

I fully agree with the report's underlying goal of improving the information provided in budgets and accounts to the House of Representatives in order to achieve our shared ambition of supporting parliament's right to approve the budget. The key question is what information does the user need in order to form an opinion and make decisions.

You write in your report that parliament needs complete information on all state-owned assets in order to exercise its right to approve the budget. Preparation of a ministerial balance sheet or a state balance sheet is not required under current legislation or regulations (Government Accounts Act 2016). The Government Accounts Act is designed so as to support parliament's authorisation, by means of the budget, and control, by means of the annual reports, of commitments, expenditures and revenues. Furthermore, the tangible fixed assets of agencies, such as the Central Government Real Estate Agency and the SSC-ICT, are accounted for in the various

ministries' annual reports. Parliament is also informed in the Budget Memorandum of the government's capital, assets and liabilities by means of the government balance sheet (appendix 8 to the 2022 Budget Memorandum).

The evaluation of central government's reporting and accounting system will examine whether additional information on tangible assets would contribute to parliament's opinion and decision-making. It will also consider the scope of the information. It is important that the *benefits* of such information are proportionate to the *costs*. Obtaining information on state-owned assets, including information on their financial value, and systematically keeping it up to date would require an enormous effort in both financial and personnel terms. In keeping with the advice of the Budget Margin Study Group, the focus will therefore be on those parts of central government that make large investments. This is where most added value is expected to be generated.

You also state that better or more complete insight into the assets can contribute to the ministries' material management and decision-making. I fully agree with the importance of the maintenance and upkeep of the movable and immovable assets managed by central government. The current statutory provisions regarding material and operational management relate to the efficient, regular, orderly and auditable acquisition, management and disposal of material. They do not require the ministries to prepare balance sheets. The ministries' material and operational management and their understanding of a product's entire life cycle are therefore thought to be adequate without such balance sheets. The reports you refer to indicate that several ministries still have to make improvements and sometimes face serious challenges in the field of material and operational management. They are working hard to make improvements and increase their insight into costs and other issues. Examples include:

- Step by step, the Ministry of Defence will gain more insight into costs in the years ahead. This project combines several initiatives, such as life cycle costing and the intention to arrive at tangible fixed asset records.
- The asset management process at Rijkswaterstaat is being designed such that planning, implementation and financial reporting cover all maintenance activities. The information system required for this project will be comprehensive, uniform and up to date and will facilitate centralised management.
- Particular attention is being paid to the design and professionalisation of life cycle management, often specifically with regard to ICT projects. The ambition is to take a more systematic approach to managing a product throughout its life cycle, from design and development to production and disposal. This will enhance initial decision-making, maintenance and ultimate disposal.

In addition to the above general response, I have received additions, corrections and amendments to the ministerial balance sheets from several ministries. I shall send them to you by separate cover.

As noted above, I will consider your findings and recommendations in the evaluation of the reporting and accounting system and am more than willing to discuss the matter with you.

5.2 Court of Audit's afterword

Contrary to customary practice during the final stage of an audit, the ministries sent us a substantial number of additions, corrections and amendments to their asset statements. Where necessary, we have incorporated them in this report. On the one hand this illustrates that reliable, verifiable information is not readily available and on the other that the government takes the accuracy of statements of state-owned assets seriously. At the same time, we understand that the government's response is somewhat reserved in view of its caretaker status.

As our report shows, all ministries have assets – including ICT systems – that are of great public interest and involve a great deal of public money. Non-financial assets are public money that has taken on a tangible form. That public money should be subject to public accountability. We compliment the government that it now intends to make a start in those parts of government that make large investments. We think, however, that it must not stop there. For a uniform reporting and accounting system and full insight into the assets, it is necessary to make progress in the other parts of government, too. The minister does not say whether or when such progress can be expected.

Apart from government ministries, all organisations of any significance in the Netherlands – both private and public – are required by law to account for their assets in a balance sheet. Enterprises, associations, provinces, municipalities, schools, hospitals and virtually every other public organisation must do so. In by far the majority of countries in the European Union and the OECD, the government must routinely prepare a balance sheet. In our opinion, it is difficult for the government and parliament to maintain that these rules apply to nearly everyone else except the government itself.

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