



Accrual Budget & Financial Management

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A Note from the Director, Budget Management Branch

Welcome to the eighth edition of the ABFM Email Bulletin.

With Phase 1 of accrual Budget and financial management reform complete, concentration is now on Phase 2. The major Output for Phase 2 is the development of the accrual budgeting framework, including conceptual principles and detailed accrual Budget processes and procedures. Information regarding the framework development process is provided in this edition of the Bulletin.

An inter-agency working group, chaired by Brian Smith of the Department of Justice and Industrial Relations, has been convened to develop the system and guidelines to assist agencies in preparing accrual information for the 2002-03 Budget. Given the positive feedback received from agencies regarding the Accrual Budgeting Workbook used for the 2001-02 accrual Budget process, the system will be enhanced for 2002-03 incorporating suggested improvements provided by agencies.

Further information regarding agency 2002-03 accrual Budget requirements will be provided in early November 2001.

2002-03 is the first year that the consolidated whole of government Budget will be presented in accordance with the accrual Uniform Presentation Framework (UPF). Currently, UPF Budget information is cash based.

In December 1999, all jurisdictions agreed to adopt an accrual-based UPF

by no later than the 2002-03 Budget. The revised UPF was agreed as a result of the increased focus on accrual reporting in the public sector and the adoption of an accrual based GFS reporting framework by the Australian Bureau of Statistics (ABS).

The previous edition of the Bulletin reported the establishment of an inter-agency working group to develop a general education program to increase the awareness of accrual budgeting and financial management. This edition of the Bulletin provides an overview of the progression towards the development of the education program, which will commence in October/November 2001.

Finally, I recently met with officers from Queensland and the Australian Capital Territory to discuss the intricacies of their accrual budgeting reform processes. Jeff Reeve (Project Manager) and Peter Williams (Director, Government Finance and Accounting Branch) also met with officers from Western Australia, South Australia, Victoria and New South Wales. Some of the key issues arising from the reform processes in those jurisdictions are provided in this edition of the Bulletin.

Stephen Gregory
Director, Budget Management Branch

Accrual Budget Framework Development

The development of the accrual budgeting framework is a two staged approach. Firstly, a conceptual view of the framework is being developed for consideration by the Treasurer.

The ABFM Email Bulletin is a publication designed to provide agency budget and finance officers, and those involved with corporate and strategic government planning, with information on the implementation of an accrual Budget framework for the Tasmanian General Government Sector.

The framework will address the following budgeting elements:

- *Measurement and Presentation of the Budget Outcome;*
- *Agency Budget Presentation; and*
- *Appropriations.*

The framework is being developed to provide Tasmania with a budgeting methodology which draws on the best features of methodologies adopted both nationally and internationally.

The framework, once approved, will be included in the education and training program to be provided in October/November 2001 (see below for further information).

The second stage of the development of the accrual budgeting framework is the establishment of accrual Budget processes, procedures and business support systems in accordance with the approved conceptual framework. This is to occur from October 2001 to March 2002.

Commencing in April 2002, work will begin on implementing the framework for the 2003-04 Budget process.

Education Program

In May 2001, an inter-agency working group was established to develop an education and training program incorporating accrual budgeting awareness and accrual financial management. Given the broad range of stakeholders targeted for the program, the working group has recommended two courses.

Course 1

Course 1 will be developed for:

- Ministerial Advisors;
- Senior Executives; and
- Finance Managers.

The course will cover a range of topics including:

- the accrual budgeting framework;
- the experiences of other jurisdictions in changing to an accrual budgeting environment; and

- an overview of models in other jurisdictions.

The course will include presentations by Treasury Executives as well as guest speakers from other jurisdictions.

Course 2

Course 2 will be developed for:

- Finance Managers;
- Agency Budget Officers;
- Treasury Budget Analysts; and
- Corporate Planners.

Course 2 will be similar in scope to Course 1, including the experiences in other jurisdictions, but will also cover the practical elements of accrual financial management.

Both courses will be held following approval of the conceptual accrual budgeting framework by the Treasurer.

Further information regarding the education program will be provided in October 2001.

Insight into Other Jurisdictions – the Accrual Budget Reform Process

During July 2001 Treasury met with officers from those Australian jurisdictions that have progressed through the accrual budgeting reform process. Meetings were held with officers from Treasuries and agencies.

Whilst each jurisdiction varied in its approach to reform and often focused reforms in different areas, common themes arose, both with regard to underlying elements of the respective accrual budgeting frameworks and issues/lessons learnt from the reform process.

Common Elements of Accrual Budget Frameworks

The following is a list of some of the common elements of the accrual budgeting frameworks implemented in other jurisdictions:

Whole-of-government and agency accrual presentation:

All jurisdictions have adopted the presentation of Budget information on a total public account basis. Whilst retaining Consolidated Fund appropriations, the Consolidated Fund is not separately reported in the Budget Papers, but is treated as revenue in the Statement of Financial Performance.

Accrual appropriations:

Each jurisdiction has adopted, or is in the process of adopting, accrual appropriation arrangements.

Appropriations are generally divided into two components:

- a cash component (representing the appropriation for expenses that will be drawn down within the Budget year); and
- a non-cash component (representing an appropriation for expenses to be incurred that do not require an immediate draw down of cash eg long-service leave and depreciation).

The non-cash portion is treated as agency revenue, even though it is not physically received in the same Budget period. Agencies access non-cash funds by meeting certain business rules. For example, funds set aside for depreciation can be accessed for asset replacement as part of a Capital Investment Program.

Periodic Budget to actual reporting:

With an established link between accrual budgeting and reporting, most jurisdictions now provide monthly or quarterly reports incorporating accrual statements which detail Budget to actual performance.

Output acquittal:

In some jurisdictions, for example Victoria, the Government is viewed as the purchaser of goods and services (Outputs) from agencies.

Accordingly, arrangements are in place where agencies have to demonstrate the delivery of a pre-determined quantity of goods and services before recognising appropriation revenue.

Appropriation drawn down by agencies in the process of delivering Outputs is treated as an advance (liability) in the balance sheet. Once agencies have successfully demonstrated Output

delivery (usually done through an Output acquittal process), the liability can be transferred to the Statement of Financial Performance as revenue.

Common Issues with the Reform Process and Lessons Learnt

Most jurisdictions have grappled with common issues during the accrual budgeting reform process. Below is a list of some of those issues:

- the reform process should be viewed as an on-going process of reform that is progressed each year. WA extended its Budget reform process to five years, SA is in year four and VIC is continuing reforms started in 1997;
- implementation should include adequate education and training for corporate planning officers and budget officers in agencies;
- there is still a need in an accrual environment to rationalise data sets to reduce the pressure on systems and agency reconciliations of Treasury data;
- the inherent tendency to focus on cash following the initial years of accrual Budget implementation remains. The move away from cash is a gradual process as stakeholders become more familiar and increase their understanding of the new accrual framework;
- frequent and focused communication between Treasury and all stakeholder groups is essential during the reform process; and
- whilst recognising that the frameworks implemented are still undergoing enhancement and modification, agencies generally noted that the new environment has been successful in stimulating accrual financial management.

The elements of the frameworks implemented across Australia and the issues and lessons learnt during the reform process provide important input into the Tasmanian accrual budgeting reform process, particularly with regard to development of strategies to ensure a successful transition to accrual budgeting.

Accrual Budgeting Practices in OECD Countries

There is a trend among OECD countries toward the adoption of accrual budgeting. Australia is widely recognised as being at the forefront in accrual budgeting development.

The following table shows those OECD countries that have accrual elements in their Budgets approved by legislature.

Country	Full Accrual Basis	Accrual Basis with some exceptions (*)	Cash Basis with some accrual elements (**)
Australia	✓		
Canada		✓	
Denmark			✓
Finland		✓	
Iceland		✓	
Italy		✓	
New Zealand	✓		
United Kingdom	✓		
United States			✓

* Budgets are accrual except no capitalisation or depreciation of assets.
 ** Budgets are cash except certain transactions are on accrual basis.
 Source: OECD Accrual Accounting and Budgeting Practices in Member Countries: Overview, November 2000.

The Netherlands plans to introduced full accrual budgeting in the near future. Korea, Sweden and Switzerland are actively considering introducing accrual budgeting:

In addition to these countries, Germany and Portugal intend to present additional accrual information with their Budgets.

At the time of publication of the OECD Report (November 2000):

- Canada was actively considering introducing a full accrual based Budget.
- The United Kingdom Budget for the 2001-02 fiscal year was expected to be their first accrual Budget.

- Italy presents its Budget on both a full cash basis and accrual basis. However, no capitalisation or depreciation of assets is included.
- Denmark, although budgeting on a cash basis, treats interest expenses and employee pensions on an accrual basis.
- Similarly the United States also treats interest expenses, certain employee pension plans and loan and guarantee programs on an accrual basis.

Phase 2 - Milestones

The following milestones have been established for Phase 2 of Accrual Budgeting:

30 September 2001 - Accrual Budgeting framework concepts submitted to the Treasurer;

October 2001 - commencement of education and training program;

31 October 2001 – revised guidelines and workbook for preparation of accrual Budgets;

30 November 2001 - review of the Outputs Methodology;

31 January 2002 – review of BMFRS with regard to accrual budgeting;

28 February 2002 – review of financial management legislation with regard to accrual budgeting;

28 February 2002 – review of Budget monitoring processes with regard to accrual budgeting; and

31 March 2002 – Accrual Budgeting Framework approved by the Treasurer for implementation.