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A Note from the Director of Budget Management

Welcome to the second edition of the Accrual Budget Implementation (ABI) Email Bulletin.

Firstly, thank you for the positive feedback we have received on the first edition of the ABI Email Bulletin.

There is clearly a significant interest in the implementation of accrual budgeting in Tasmania and its impact on the day-to-day financial management activities of agencies.

I consider it essential that agencies actively participate and contribute to the goals of the ABI Project and, in this regard, I encourage you to attend Agency Reference Group meetings and frequently visit the ABI Internet site.

The Project Team will continue to liaise with agencies on this important reform and provide information on the continued development of the Tasmanian Accrual Budget Model as it becomes available.

This edition of the ABI Email Bulletin includes:

- an overview of the first meeting of the Agency Reference Group;
- a description of the three key accrual financial statements;
- a glossary of the accrual terms which will be introduced in future Budget Papers;

- frequently asked questions (and answers!) regarding the implementation of accrual budgeting; and
- details of new documents now available on the ABI Internet site.

As noted in the first edition of the ABI Email Bulletin, your comments and suggestions about issues to be addressed in future editions of the Bulletin continue to be welcomed.

Stephen Gregory
Director, Budget Management

The Agency Reference Group

The initial meeting of the Agency Reference Group (ARG) was held on Tuesday, 13 June 2000. The meeting was well attended with approximately 40 agency representatives present.

Those present were provided:

- a background to the implementation of accrual budgeting in Tasmania, including the drivers of accrual reform and the benefits of accrual budgeting;
- an overview of the Project governance structure and the role of the ARG;
- an overview of the proposed Accrual Budget Model for 2001-02 and beyond;



The ABI 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 development of an accrual Budget framework for the Tasmanian General Government sector.

- the key Accrual Budget Implementation Project dates; and
- an opportunity to provide initial feedback on the ABI Project.

The ARG provides agencies with an opportunity to actively participate and contribute to the ABI Project.

For those who were unable to attend the ARG meeting, a copy of the information slides presented at the meeting is now available on the ABI Internet site.

The next meeting of the ARG will be held following approval of the Accrual Budget Model by the Treasurer. It is envisaged this meeting will be held in late July 2000. Confirmation of the meeting date and other information will be provided in the coming weeks.

If you are not a member of the ARG but would like to attend the ARG meetings, please contact a member of the Project Team. Treasury is keen to seek the involvement of all stakeholders in this important financial reform.

Accrual Financial Statements

Accrual budgeting will involve the production of accrual financial statements in the Budget Papers.

There are three main accrual financial statements:

- the Operating Statement;
- the Statement of Financial Position; and
- the Statement of Cash Flows.

Accrual financial statements facilitate the assessment of an agency's performance by showing the full cost of Outputs delivered.

Operating Statement

The Operating Statement enables users to identify the cost of Outputs (goods and services) provided during the Budget period, the extent to which that cost was recovered from revenues, the sources of those revenues and the change in resources controlled during the Budget period as a result of operations.

This information is relevant to an assessment of an entity's performance for the Budget period and can be used as input to decisions about the resources that should be provided to support the entity's operations in future periods.

Statement of Financial Position

The Statement of Financial Position, also known as a Balance Sheet, shows an entity's estimated assets, liabilities and equity (net worth) at year end for the Budget year and the previous Budget year.

Assets are the physical and non-physical items that an entity owns and/or controls, and that are used over their useful life in the delivery of services, such as cash, receivables, property, plant and equipment. Liabilities are amounts owed by the entity, including accounts payable, borrowings and employee entitlements.

Assets and liabilities are classified into 'current' and 'non-current'. Current assets and liabilities are those which are expected to be used or discharged within the next 12 months. Non-current assets and liabilities are those which are expected to be held for more than one year, or not discharged within the next 12 months.

Information about the assets controlled and liabilities incurred by an entity is useful for assessing the resources controlled by the entity, its financial structure and capacity for adaptation. Information about financial structure and capacity for adaptation can be used as input to decisions about the allocation of scarce resources in the future and the methods used to deliver services.

Statement of Cash Flows

The Statement of Cash Flows shows the estimated cash inflows and outflows of an entity during the Budget year and the previous year. The flows of cash are categorised into operating, investing and financing activities.

- Operating activities are those activities that relate to the provision of services. Included in the inflows from operating activities are payments for Outputs by the Government.
- Investing activities are those activities that relate to the acquisition and disposal of property, plant and equipment, and other capital items.
- Financing activities are those activities that relate to sources of funding, such as borrowing and equity adjustments from the Government.

The information disclosed in the Statement of Cash Flows will be relevant to assessments of the future cash flow needs of an entity and to the discharge of accountability obligations.

Accrual financial statements will be produced:

- at an agency level (in accordance with the principles of *AAS 29 Financial Reporting by Government Departments*); and
- at a whole-of-government level (in accordance with the principles of *AAS 31 Financial Reporting by Governments* and the Accrual Uniform Presentation Framework).

Benefits of introducing Accrual Financial Statements

The benefits of introducing accrual financial statements to the Budget process will include:

- facilitating the assessment of an agency's performance by showing the full cost of Outputs delivered by the agency;

- facilitating assessment of an agency's financial position by showing all resources and obligations;
- enhancing the accountability of agency management for its performance; and
- acting as a spur to better management performance.

Further information regarding accrual financial statements and accrual accounting issues can be found in the Department of Treasury and Finance's *Accrual Accounting Manual*, December 1995. If you require a copy of the Manual, please contact David Harrison of the Government Finance and Accounting Branch at Treasury on 6233 3619.

Glossary of Accrual Terms

Accrual budgeting will introduce a number of new terms to the Budget Papers. Some of these new accrual terms are defined below.

Accrual accounting: The accounting approach that recognises revenue and expenditure at the time it is earned or incurred, rather than when money is actually received or paid.

Accrual Budget: The preparation of a Budget based on accrual accounting principles.

Accrual statements: The three main accrual financial statements are:

- the Operating Statement;
- the Statement of Financial Position; and
- the Statement of Cash Flows.

Assets: Assets represent future economic benefits or service potential controlled by an entity as a result of past transactions.

Australian Accounting Standards: Professional accounting standards showing the acceptable method(s) of measuring and reporting financial transactions, and the level of disclosure required in financial statements.

Cash accounting: The cash basis of accounting, which recognises the financial effects of transactions or other events only when cash is received or paid.

Equity: Equity represents the residual interest in an agency's assets after deduction of its liabilities.

Equity contribution: The investment by Government of additional cash in an agency to increase its asset base or reduce its debt.

Expense: Expenses represent future consumption or losses of future economic benefits in the form of reduction in assets or increases in the liabilities of the agency. Expenses result in a decrease in equity but do not include distributions to the Government (as owner).

Liabilities: Liabilities represent present obligations to make payments or render services as a result of past transactions.

Operating Statement: The financial statement disclosing the revenues, expenses (and their sources) and the operating result for a period.

Revenue: Revenue includes an inflow or saving in outflows of future economic benefits that result in an increase in equity. Revenues are in the form of increases in assets or reductions in liabilities that do not relate to contributions by the Government (as owner).

Statement of Cash Flows: A statement showing all movements of cash, that is, all cash received and paid. The closing balance reflects the amount of cash available at the end of the reporting period.

Statement of Financial Position: A statement showing the financial position (at a specific time) of an

agency in terms of its assets, liabilities and equity (also known as a Balance Sheet).

Frequently Asked Questions

Q *Has an accrual budgeting regime been introduced elsewhere in Australia?*

A *Yes.* Various forms of accrual budgeting have been introduced in Victoria, New South Wales, South Australia, Queensland, Western Australia, the ACT and the Commonwealth.

Q *Will the Accrual Budget Model be consistent with Australian Accounting Standards?*

A *Yes.* Consistency with the Australian Accounting Standards is a key goal of the Accrual Budget Model. Accordingly, the Accrual Budget Model will be developed in accordance with the principles of *AAS 29 Financial Reporting by Government Departments* and *AAS 31 Financial Reporting by Governments*.

Q *Will there be any legislative changes required to implement the Accrual Budget Model?*

A In the short-term, it is envisaged that some minor amendments will be required to the *Public Account Act 1986* and the *Financial Management and Audit Regulations 1990*. In the longer term, consideration will be given to reviewing and enhancing the current financial management legislation to fully support an accrual budgeting regime.

Q *What form will appropriations take under the new regime?*

A It is envisaged that appropriations will continue to be made on a cash basis in the short-term. However, subject to approval by the Government and the Parliament, the existing Recurrent Services and

Works and Services appropriations categories will be replaced by three new appropriation types.

The new appropriations types relate to:

- the Provision of Outputs;
- the Provision of Capital; and
- Administered Items.

The new appropriation types will continue to be funded on a cash basis. Accrual appropriations will be introduced at a later date.

Q Why do we need a new appropriation regime?

A Under the current regime:

- agencies focus on their immediate cash requirements rather than on their 'operating result';
- appropriations are paid regardless of whether or not agencies have delivered Outputs satisfactorily;
- agency managers lack the resources to manage their accruing liabilities and asset depletion; and
- there is an inconsistency between the cash budget management statements and accrual financial reports prepared by agencies.

An accrual Budget regime will assist in overcoming the deficiencies of the current regime.

If you have any questions regarding accrual budgeting, please contact Michael Reynolds on 6233 2495.

ABI Internet Site

The following documents are now available on the ABI Internet site:

- minutes of the ABI Steering Committee meetings held on 7 and 26 April and 19 May 2000;
- the Agency Reference Group Terms of Reference;
- the Accrual Budget Implementation Project information slides presented at the first ARG meeting;
- an Inter-jurisdictional Comparison Table of Accrual Budget Models; and
- the report on the Tasmanian Accrual Budget Trial completed in November 1999.

The following information will soon be available on the site:

- the ABI Business Plan Version 2.0;
- the ABI Communications Strategy;
- the ABI Project timetable; and
- the Accrual Budget Model Overview and supporting technical papers.

You are encouraged to visit the ABI Internet site on a regular basis. If there is any additional information you would like available on this site or if you have any suggestions for improving the site, please contact a member of the ABI Project Team.

Email Bulletin Distribution

The ABI Email Bulletin will be produced on a regular basis and distributed widely throughout agencies.

If you know of others who would like to receive the ABI Email Bulletin, please contact Ben Daley on 6233 2413 to include them on the Bulletin distribution list.

