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TREASURY and FINANCE**

Accrual Budget & Financial Management Project

Agency Reference Group

What is the Accrual Budget and Financial Management Project?

A project team established within Treasury to;

- implement accrual budgeting processes and associated financial management reforms in government agencies
- change the financial management focus from input based to managing service delivery
- implement a comprehensive education and training program to raise the level of competency in accrual financial management

Why Accrual Budgeting?

shifts attention from a basic cash management function to managing all expenses associated with service delivery

detects where funding levels do not match up to service delivery

assists in recognising agencies as real financial entities

provide the ability and incentive to manage human, physical and financial resources in a business like manner

Appropriations should be a payment for the provision of goods and services

Why Accrual Budgeting? (cont)

- greater linkage between budgeting and financial reporting
- improved comparability of data for benchmarking to other Australian jurisdictions, etc.
- integrated with other financial management reforms
 - Output Methodology
 - accrual reporting and accounting
 - accrual financial management



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External Drivers

- ratings agencies
- ABS
- Commonwealth Grants Commission
- other jurisdictions
- other commentators



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More than just preparing Budgets

- Accrual financial management
- Output methodology
- Financial management legislation
- Skills and knowledge in financial management
- Changes to business support systems
- Accrual Budgeting should be seen as an *opportunity* for improvement

Cash Still Important

Cash flow management is still an important element under a full accrual financial management regime but separate from the Budget process

The critical change is:

- cash flow will no longer be the *key driver* of agency and whole-of-government resourcing decisions



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Objectives

- Full accrual financial management by 2003 -04
- Accrual agency appropriations
- Accrual Budget result measures
- Accrual Budget presentation
- Output Methodology
- Financial management legislation to support the accrual budgeting framework

Phased Approach

- The Strategy represents a 3 year phased approach:
 - Phase 1 (2001-02 Budget)
 - Phase 2 (2002-03 Budget)
 - Phase 3 (2003-04 Budget)
- Strategy will be reviewed at the end of each phase
- Future reforms are subject to the Treasurer's approval



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Key Features - Phase 1

- Preparation of accrual Budget information by agencies for the 2000-01 and 2001-02 financial years:
 - Operating Statement
 - Statement of Financial Position
 - Statement of Cash Flows
- Agency accrual Budget information to be used to develop a consolidated accrual Budget
- Consolidated accrual Budget to be presented in the Budget Papers



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Key Features - Phase 1 (cont)

- Agency accrual Budget based on AAS29 format and AAS31 for consolidation purposes
- For 2001-02, Treasury only requires agency accrual Budget data at a high level
- link to TFRS Mandatory Data Codes

Key Features - Phase 1 (cont)

- future Budgets to be prepared at the TFRS Mandatory Data level
- Accrual Budget preparation guidelines being developed and to be given to agencies in November 2000
- Accrual Budget information for two years due at different times:
 - 2000-01 accrual Budgets: end of February 2001
 - 2001-02 accrual Budgets: end of March 2001

Key Features - Phase 1 (cont)

- An electronic survey to be issued to collect accrual Budget information
- BMS will be 'accrual Budget ready' for the 2002-03 Budget
- 2001-02 accrual Budget information to be input into BMS when enhancements are complete.



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Key Features - Phase 1 (cont)

- Information and education material to increase the awareness and competencies in accrual financial management within agencies
- Agency accrual financial statements (actual results for 1999-00) to Budget Committee
- Further development of the Implementation Strategy

Benefits to be gained in Phase 1

- First step in preparing an accrual Budget
 - increases understanding of accrual budgeting
 - allows agencies and Treasury time to consider the issues.
- Agencies/Treasury can review accrual Budgets to actual accrual results
- Budget Committee become familiar with accrual information



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Key Features - Phase 2

- Phase 2 reforms and activities subject to further review and approval by the Treasurer
- Phase 2 reforms and activities to include:
 - Education/marketing to increase the understanding and awareness of managing in an accrual environment
 - Presenting agency accrual Budgets to Budget Committee

Key Features - Phase 2 (cont)

- Review of business support systems:
 - BMS/PARS enhanced to collect, manage and report accrual Budget information
 - a review into combining BMS and PARS into one system
 - review into establishing a common chart of accounts

Key Features - Phase 2 (cont)

- Review of the Output methodology
 - future appropriations to reflect the purchase of Outputs rather than expenditure limits
 - the purchase of Outputs involves an assessment of Output quantity, quality, timeliness and cost
 - existing Output information to be reviewed against these measures

Key Features - Phase 2

- Treasury, in conjunction with agencies, will develop the accrual budgeting framework for consideration by the Treasurer
- Development of accrual appropriation processes
- Review of the Financial Management Legislative framework
- Review of the Fiscal Strategy
- Review of cash management process
- Introduction of competency standards

Key Features - Phase 3

Phase 3 reforms (subject to approval by the Treasurer) will represent a transition to accrual based financial management:

- the Budget developed and presented on a full accruals basis
- accrual appropriations
- appropriate Budget methodology
- fiscal strategy to incorporate accrual targets
- appropriate legislative framework

Agency's Role

- preparation of accrual Budget information
- participation on working groups
 - development of accrual Budget preparation guidelines
 - training and education
 - Business Support systems
 - chart of accounts
- submission of actual financial statement accrual information to be presented to Budget Committee

What does accrual budgeting mean for an agency?

- Change to the way agencies manage financial resources
- Contemporary financial management skills and knowledge required by managers (competency standards)
- changes to budget systems and processes
- closer alignment of skills required for budgeting and reporting
- managing to an expenditure level not a cash figure
- all sources of funds taken into account

Experience from other Jurisdictions

Concerns addressed by agencies

- A lack of qualified or skilled staff in agencies
- problems with in-house financial management systems to provide accrual financial information in the prescribed format
- difficulties in forecasting for the forward estimate period on an accruals basis;
- disagreement on the accounting treatment of certain items

What should agencies do to prepare for accrual budgeting?

- Advise senior management and consider training needs
- continue to improve the reliability and relevance of outputs and output measures
- ensure planning, budgeting, management and reporting systems are ready for accrual financial management
- attend information and education sessions
- contact the Project Team to raise issues and concerns



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Implementation Timetable

- **Mid November 2000** - agencies advised of accrual Budget information requirements
- **late November** - accrual Budget preparation guidelines issued to agencies
- **Mid December** - agencies to submit financial statement information to Treasury



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Implementation timetable (cont)

- **Early January** - Treasury to commence working with agencies to prepare Budget information
- **28 February** - agency accrual Budgets (2000-01) to be prepared and available to Treasury
- **31 March** - agency accrual Budgets (2001-02) to be prepared and available to Treasury

Implementation timetable (cont)

- **April 2001** - Further review of Business Support Systems in regard to accrual Budget data collection and management for 2002-03
- **May 2001** - Commence education program on “managing in an accrual environment”
- **June 2001** - Implementation strategy for phase 2 to be finalised and approval by the Treasurer sought