Tasmania

ACCRUAL BUDGET AND FINANCIAL MANAGEMENT PROJECT

Accrual Budgeting Framework

Development and Management of the Accrual Budget

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Department *of* Treasury
and Finance

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1. Executive Summary

This paper outlines changes to the Budget development, management and reporting processes associated with the introduction of an accrual budgeting framework.

The management focus of the Budget is driven by key or headline Budget measures contained in the Government's Fiscal Strategy. The current Headline Budget Measure is the Consolidated Fund Surplus and the focus of the Budget in terms of development and management processes is fundamentally focused on the Consolidated Fund.

The focus of the 2003-04 Budget will be on measures derived from Budget statements prepared in accordance with the accrual Uniform Presentation Framework (UPF). Headline Budget Measures currently being considered in a new Fiscal Strategy are:

- Net Lending (Fiscal Balance) as a headline measure - representing the difference between General Government revenues over expenses (including capital expenditure);
- Net Operating Result as a supplementary measure - representing the difference between General Government revenues over expenses (excluding capital expenditure); and
- Other measures derived from the UPF Balance Sheet and/or Cash Flow Statement, such as Net Debt or Cash Surplus/Deficit.

The accrual UPF is a total resource based framework and, although appropriations to agencies will continue to be made from the Consolidated Fund, the Budget will be developed, managed and reported on a total Public Account basis. The Budget will also incorporate transactions for a number of entities that reside outside the Public Account, such as TAFE and the Tasmanian Fire Service. It is expected that the inclusion of these transactions will have only a minor impact on the General Government Budget result.

In the current framework, legislation sets a limit on the level of cash expenditure from the Consolidated Fund. Under a total resource based approach, additional means are required to manage accrual items and transactions outside of the Consolidated Fund.

In this new environment, although the Consolidated Fund Surplus is not the headline Budget measure, it is still a significant component of the Budget. Budget development will incorporate existing Consolidated Fund Budget development processes.

In developing an agency's accrual Budget, approval of agency appropriations from the Consolidated Fund will continue as a primary function, however additional information will be provided to measure the impact of requests for additional funds by agencies and movements in other sources of revenue and expenditure on the Budget result.

Budget management, particularly in regard to non-Consolidated Fund transactions, will be enhanced through expanded Budget Management Guidelines and the introduction of additional Treasurer's Instructions. Budget monitoring will require agencies to manage their budgeted Statements of Financial Performance and Financial Position. The move to a UPF Budget presentation will require changes to internal and external reporting requirements to facilitate monitoring on a total resource basis.

2. Budget Development

The Budget development process currently focuses on the level of Consolidated Fund appropriation each agency will receive. Agencies are currently required to supply estimates of receipts and payments from other sources of funds, however these estimates do not impact on the Consolidated Fund Budget and are not directly considered in Budget allocation decisions.

Expenditure from the Consolidated Fund represents the majority of an agency's Budget. In developing an agency's accrual Budget, approval of agency appropriations from the Consolidated Fund will continue as a primary function.

The key difference in Budget development will be the inclusion of additional information to enable decision making (by the Treasurer, Budget Committee and Treasury) to measure the impact of requests for additional funding by agencies and movements in other sources of revenue and expenditure, on the Budget result.

The Budget result will be determined by measures recommended in the draft Fiscal Strategy, such as Fiscal Balance (based on the Operating Statement), Net Debt (based on the Balance Sheet and Cash Flow Statement) and Net Financial Liabilities complimented by other measures, such as the Net Interest Cost Ratio.

The process for the development of agency accrual Budgets (based on Australian Accounting Standards) that will form the basis for the development of the accrual UPF statements is discussed below.

2.1 Operating Statement/Statement of Financial Performance

The Headline Budget Measure (Fiscal Balance) is derived from the UPF Operating Statement. The UPF Operating Statement will be based on:

- estimates provided by agencies in their Statement of Financial Performance, prepared in accordance with Australian Accounting Standard principles; and
- estimates supplied by Finance-General for Whole-of-Government related items, such as superannuation expense and debt servicing costs.

As the Statements will be based on total resources, agencies will need to ensure accurate estimates are supplied for activities through the Special Deposits and Trust Fund, as well as the Consolidated Fund.

It is proposed that agency pre-Budget reports submitted to Budget Committee will be in the form of a budgeted Statement of Financial Performance based on existing Budget estimates (approved) and pending variations highlighting the impact of any proposed initiatives and other requests for additional funding. Treasury and Budget Committee assessment of agency submissions will consider both the impact on the Consolidated Fund and the impact on targeted headline Budget measures, such as the Fiscal Balance.

It is anticipated that the current process for the development and approval of Consolidated Fund appropriations will remain unchanged.

2.2 Balance Sheet/Statement of Financial Position

The current Budget development process does not incorporate Balance Sheet information, either by agencies or at a Whole-of-Government level. To date, asset and liability information in the Budget Papers has been based on historical financial information.

The implementation of the Accrual Budgeting Framework will require a budgeted Statement of Financial Position to be prepared by agencies. This information will be used to develop the accrual UPF Balance Sheet.

The information contained in the Statement of Financial Position and the UPF Balance Sheet will be used primarily to manage Net Debt and would also be used to assist in making Budget decisions on agency revenue and expenditure levels (eg debtor and creditor information).

2.3 Cash Flow Statement

The Cash Flow Statement will provide a number of indicators, important to both the development, and management of the Budget.

The Cash Flow Statement will be used to monitor the following items:

- Net increase (decrease) in cash held; and
- Cash surplus/(deficit).

The Cash Flow Statement will play a major support role in demonstrating that the overall cash position of the General Government sector is consistent with the achievement of Operating Statement and Balance Sheet targets. Cash flow management is particularly important to Net Debt management in terms of identifying where agencies are using cash reserves to fund expenditure.

The development of the UPF Cash Flow Statement will be based on estimates contained in the agency AAS based Statement of Cashflows.

2.4 Budget Approval

It is anticipated that Budget Committee recommendations to Cabinet will include the agency Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows, in addition to recommendations regarding Consolidated Fund appropriations.

3. Budget Management

Appropriations from the Consolidated Fund are founded in legislative provisions. This provides a basis for management of Consolidated Fund transactions, in accordance with those provisions. Accruals and expenditure from other sources of funds are not restricted by legislation and arrangements need to be established to manage these items in order to meet Budget targets. These items include:

- accrual transactions (eg depreciation);
- transactions outside the Consolidated Fund; and
- General Government sector entities that do not undertake transactions through the Public Account (eg TAFE and State Fire Commission).

The management of these items will be improved by expanding the Budget Management Guidelines, in consultation with agencies and introducing additional Treasurer's Instructions.

It is considered that non-Public Account General Government sector entities transactions will not have a material effect on the Budget.

3.1 Within Year Budget Management and Monitoring

The emphasis for Budget management will be on the achievement of the Headline Budget Measure (eg the General Government sector Fiscal Balance).

Monitoring of the Headline Budget Measure will require agencies to manage to their budgeted Statements of Financial Performance and Financial Position. Agencies will be required to consult more frequently with Treasury on financial decisions which impact on both the Consolidated Fund and the Special Deposits and Trust Fund within the Budget year.

Under the Accrual Budgeting Framework, the Consolidated Fund Appropriation will represent the amount the Government is providing for agency service delivery. Accordingly, the Requests for Additional Funding (RAF) process and the establishment of a Treasurer's Reserve each year will remain unchanged.

4. Reporting

The move to a UPF Budget presentation will require changes to both internal and external reporting requirements. Reports will be enhanced to facilitate monitoring of the Consolidated Fund and SDTF on a total resource basis. This will require greater accuracy by agencies in preparing Budget estimates for total sources of funds.

Revised reports for use by the Treasury Budget Strategy Committee will be developed and will include other General Government sector entities.

4.1 State Of the Budget Report

The main internal reporting mechanism will continue to be the State of the Budget Report (SOBR) provided to the Treasurer on a monthly basis.

It is proposed that, in accordance with the revised Fiscal Strategy, the focus of the report be on the Headline UPF Budget Measure (Fiscal Balance) and details of variations which affect this measure. It is proposed to continue to provide an overview of the status of the Consolidated Fund and details of variations.

The SOBR may also contain updated estimates of other Fiscal Strategy measures on a monthly or quarterly basis, as required.

4.1.1 Treasurer's Quarterly Statements

Currently the Treasurer is required by section 25 of the FMAA to publish each quarter in the Gazette, a statement of receipts and payments for the Consolidated Fund. The Statement also includes details of expenditure from other sources of funds on an Outputs basis.

It is proposed to include a UPF Operating Statement, detailing information on total revenues and expenses, with the quarterly statements.

4.1.2 Treasurer's Annual Financial Statements

Under section 26 of the FMAA, the Treasurer is required by 30 September each year to lay before each House of Parliament financial statements for the Public Account for the previous financial year.

It is proposed to review the requirements in relation to end of financial year reporting, including the final quarterly statement (to rationalise the production of reports which provide similar data). This review will consider the implications of including the UPF Statements in the Treasurer's Financial Statements, auditing requirements and legislative changes required to the FMAA and/or the regulations.