



Accrual Budget Implementation

Email Bulletin No 1

This Issue..



What is an accrual Budget?



Information on the first meeting of the Agency Reference Group.



Accrual Budget Implementation Web Site.



Key Project dates.

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ACCRUAL BUDGET IMPLEMENTATION WEB SITE:

<<http://www.tres.tas.gov.au>>
and select the 'Accrual Budget Implementation' link.

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Welcome - A Note from the Director of Budget Management

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

This publication is 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 development of an accrual Budget framework follows the Government's decision in November 1999 to formulate the 2001-02 Budget on an accrual basis.

The development and implementation of an accrual Budget framework will be one of the most significant financial management reforms undertaken in Tasmania in recent years. In this regard, it is important that agencies are kept fully informed of the ABI Project developments and have an opportunity to actively participate in the Project.

The development and implementation of an accrual Budget framework will be one of the most significant financial management reforms undertaken in Tasmania in recent years.

To encourage agency participation in the Project, an Agency Reference Group has been established. This Group will provide an opportunity for agencies to provide input to the Project and be updated on the development of the accrual budgeting framework.

Nominations for the Agency Reference Group have been received from

agencies, however, if you would like to attend Agency Reference Group meetings or become a member of the Group I would encourage you to do so. Meetings will be held every four to five weeks. Details of the inaugural Agency Reference Group meeting are provided in this edition of the ABI Email Bulletin. Information regarding upcoming meetings will be provided in future editions of the ABI Email Bulletin.

To further assist with the communication of accrual budgeting developments, an ABI Project web site has been established on Treasury's home page. Details of how to access the web site are included in this edition of the ABI Email Bulletin.

This edition of the ABI Email Bulletin also includes:

- a brief examination of what accrual budgeting involves;
- details of the Agency Reference Group meeting;
- an overview of the Accrual Budget Trial conducted in November 1999; and
- a summary of the Project's timetable.

The ABI Project Team welcomes any comments in relation to the format and content of the Email Bulletin and will consider any suggestions about issues to be addressed in future editions.

I look forward to working with you on this important Project.

Stephen Gregory
Director, Budget Management Branch

What is an Accrual Budget?

An accrual Budget is the preparation and presentation of a Budget based on accrual accounting principles.

Accrual budgeting reflects the full cost of government service provision. It provides a more complete picture of both an agency's financial position and the State's financial position than is otherwise possible under a cash basis of budgeting.

Under accrual principles, all transactions are recorded when they occur, compared with the cash system that records transactions when cash is actually exchanged.

Accrual Financial Statements

The use of accrual information leads to the production of:

- an operating statement;
- a statement of financial position (also known as a balance sheet); and
- a statement of cash flows.

It is envisaged that the 2001-02 Budget Papers will include these accrual statements at both a whole-of-government and agency level.

Information on each agency's financial performance will be provided:

- on a full cost basis (i.e. costs will include both cash and non-cash expenses); and
- in accordance with Australian Accounting Standards.

Benefits of Accrual Budgeting



An accrual budgeting framework will further enhance the Output methodology and establish a clear link between budgeting, accounting and reporting functions.

Additional benefits of an accrual budgeting framework include:

- a longer term focus – it shifts attention from year by year cash management to managing resource allocation for service delivery over the longer term;
- better resource decisions – it facilitates assessment of agency performance by showing the full cost of service delivery, including the effects of decisions made now that will result in increased costs in the future; and
- greater accountability – it improves the transparency of government accounting by detecting when current levels of service provision are not sustainable. For example, where funding levels will not provide for asset replacement.

The budgeted operating statement will clearly show the full cost of services (including non-cash expenses such as depreciation and liability for employee entitlements), while the statement of financial position will show if agencies are building up liabilities or running down cash reserves to deliver services. This will allow greater emphasis on, and management of, the sustainable provision of services by agencies.

An accrual budgeting framework will further enhance the Output methodology and establish a clear link between budgeting, accounting and reporting functions.

The move from cash to accrual budgeting will also bring the General Government sector into line with conventional financial management and accounting practices.

Implementation Issues

While accrual budgeting has been implemented in most other Australian jurisdictions, there are a number of matters that require further consideration. These matters include:

- the accrual appropriation regime;
- the final presentation of Budget Paper information; and
- implications for Tasmanian financial management legislation.

These matters will be considered by the Project Team after consultation with stakeholders and will be addressed in future editions of the ABI Email Bulletin.

Agency Reference Group

The implementation of an accrual Budget will require significant coordination, communication and education between Treasury and other Government agencies.

To ensure agencies are involved with the implementation process and to provide agencies with an opportunity to express their thoughts and ideas on the proposed accrual Budget model (and likely implementation issues), an Agency Reference Group has been established.

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Nominations for members of the Agency Reference Group were sought from agencies in April 2000. Whilst agency budget and finance officers were nominated, Treasury is keen to seek the involvement of corporate and other Government strategic planning officers.

In this regard, the Project Team will be contacting agencies requesting nominations of corporate planning officers to attend Agency Reference Group meetings.

The Project Team will also be requesting Government strategic planning officers (e.g. Tasmania *Together*, the Industry Development Plan, Learning *Together* and the 10 Year Health Plan) to attend meetings of the Agency Reference Group.

The Inaugural Agency Reference Group Meeting will be held on Tuesday, 13 June 2000 from 10.30 - 12.30 pm at Hadleys Hotel in the Bowen Room.

The Agenda for this meeting is attached for your information. Minutes of the Agency Reference Group will be made available on the ABI Project Internet site.

Accrual Budget Trial – November 1999

The Government's decision to formulate the 2001-02 Budget on an accrual basis followed the conduct of a trial accrual budgeting process in late 1999 involving the Department of Health and Human Services and the Department of Education.

The accrual budget trial process was not designed to be a complete replication of a full Budget process. Rather, it was embarked upon with two key goals in mind:

- to provide an opportunity for officers of the two trial Departments and Treasury to familiarise themselves with accrual budgeting concepts; and
- to develop 'trial' accrual Budget statements as they would appear in the Budget Papers under an accrual regime.

Accrual Budgeting Trial Outcomes

The Departments of Health and Human Services and Education, with assistance from KPMG Consulting and Treasury, were successful in converting their respective 1999-00 departmental cash Budgets into departmental accrual Budgets.

The Accrual Budgeting Trial demonstrated that an accrual budgeting framework can be successfully implemented by Tasmanian government departments.

The conversion of departmental Budgets from a cash basis to an accrual basis illustrated that:

- the accrual budgeting framework can be successfully implemented by Tasmanian government departments;
- the adoption of accrual budgeting will enhance the benefits derived from accrual accounting reforms previously implemented by departments;
- the Budget Papers will be comparable with audited agency end of period financial statements;
- the Budget presentation will be consistent with Australian Accounting Standards and, with the introduction of accrual based Government Financial Statistics by the Australian Bureau of Statistics, with uniform Government reporting;
- accrual budgeting continues to place importance on cash flow information; and
- benefits exist in introducing conventional financial statements to the Budget, including:
 - facilitating the assessment of a department's performance by showing the full cost of Outputs delivered by the department;
 - facilitating assessment of a department's financial position by showing all resources and obligations;
 - enhancing the accountability of departmental management for their performance; and
 - acting as a spur to better management performance.

However, the trial also identified a number of issues that must be addressed prior to the implementation of accrual budgeting. These issues include:

- a review of the financial management legislation, Treasurer's Instructions and Budget Management Guidelines to ensure consistency with the objectives of accrual budgeting and

reinforcement of the accrual budgeting framework;

- the preparation of a comprehensive Accrual Budgeting Manual;
- the development of financial competency standards and a comprehensive education and training program for financial officers and Budget Analysts in Treasury and other departments;
- the development of a general accrual budgeting information program for the Budget Committee, the Cabinet and members of Parliament;
- further discussions with the Auditor-General and Solicitor-General to ensure all legislative and audit requirements are met; and
- investigation and consideration of the implementation of further complementary reforms such as capital charging and accrual based financial management by departments.

A full copy of the Accrual Budget Trial Report entitled, *Report on the Trial Accrual Budgeting Process and Recommended Future Direction* is available on the ABI Internet site.

ABI Internet Site

An Accrual Budget Implementation Internet site has been established.

This site forms an essential part of the Project's communications strategy. The address for this site is presented on the first page of this Bulletin.

An Accrual Budget Implementation Internet site has been established.

Below is a list of the information that will be made available on this site. Whilst not all this information is available, the Email Bulletin will be used to inform readers of updates to the site.

Information soon to be available:

Business Plan

- Accrual Budget Implementation Project Business Plan – Version 1.0.

Minutes

- Accrual Budget Implementation Project Steering Committee;
- Agency Reference Group; and
- Working Groups.

Proposed Accrual Budget Model

- Scope of the Proposed Accrual Budget Model; and
- Proposed Accrual Budget Model (to be developed).

Accrual Budget Manual

- (to be developed)

Cash to Accrual Conversion Guidelines

- (to be developed)

Background Papers

- Inter-jurisdictional Accrual Budget Comparison Table;
- Accrual Uniform Presentation Framework – April 2000;
- Vertigan Report - Review of Budget Estimates Production Arrangements (Commonwealth) July 1999.

External Links

- Commonwealth, State and Territory Accrual Budget Papers:
 - Commonwealth 2000-01 Budget <http://www.budget.gov.au/>
 - Victorian 2000-01 Budget <http://www.vic.gov.au/treasury/treasury.html>
 - Western Australia 2000-01 Budget <http://www.treasury.wa.gov.au/>
 - South Australia 2000-01 Budget <http://www.treasury.sa.gov.au/>
 - New South Wales 2000-01 Budget - <http://www.treasury.nsw.gov.au/>
 - Australian Capital Territory 2000-01 Budget – <http://www.act.gov.au/governme nt/budget/budget2000/draft/default.html>

Email Bulletin Distribution

Future editions of the ABI Email Bulletin will be produced on a regular basis and distributed widely throughout all agencies.

If you know of others who would like to receive this Bulletin, the Project Team would be pleased to include them on the distribution list (refer to the cover page for contact details).

Summary Project Timetable

Milestone	Key Date
• Development and submission to the Treasurer of an Accrual Budget Model.	1 July 2000
• Review of the financial management legislative framework in view of the approved Accrual Budget Model.	14 July 2000
• Development of cash to accrual conversion guidelines.	28 July 2000
• Review of business support applications.	28 July 2000
• Completion of the Accrual Budgeting Manual and Budget Papers presentation.	31 August 2000
• Accrual Budget training for Budget Analysts and agencies	September 2000
• Beginning of 2001-02 accrual Budget development cycle.	October 2000
• Introduction of legislative amendments (if required) to Parliament.	October 2000
• Tabling of Accrual Budget by Treasurer.	Late May 2001
• Post Implementation Review.	July 2001

Agency Reference Group – Meeting No. 1

10.30 am –12.30 pm Tuesday, 13 June 2000

Hadleys Hotel, Bowen Room

34 Murray Street, Hobart

Agenda

Item	Topic	Time
	Tea and Coffee	10.30 –10.45 am
1.	Introductory Comments	10.45 –10.50 am
	<ul style="list-style-type: none">• Background to Implementing Accrual Budgeting in Tasmania <p>Mr Stephen Gregory, Chairman, Agency Reference Group</p>	
2.	Accrual Budget Implementation Project Governance	10.50 –11.00 am
	<ul style="list-style-type: none">• Accrual Budget Implementation Steering Committee• Accrual Budget Implementation Project Team• Consultants	
3.	The Agency Reference Group	11.00 –11.10 am
	<ul style="list-style-type: none">• Terms of Reference for the Agency Reference Group• Role of the Agency Reference Group	
4.	Accrual Budget Implementation Timetable	11.10 –11.15 am
	<ul style="list-style-type: none">• Overview of the Implementation Timetable	
5.	Overview of the Proposed Tasmanian Accrual Budget Model	11.15 –11.45 am
	Two Stages of Implementation: <ul style="list-style-type: none">• Overview of Stage 1 –Accrual Presentation• Overview of Stage 2 –Accrual Management Enhancements	
6.	Implementation Issues	11.45 –12.00 pm
	<ul style="list-style-type: none">• Business Support Systems• Conversion of Forward Estimates from Cash to Accrual• Accrual Budgeting Manual• Communications and Education Strategy	
7.	Open Discussion of the Proposed Accrual Budget Model	12.00 –12.30 pm
