

ACCRUAL BUDGETING FRAMEWORK

May 2003
Department of Treasury and Finance



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Treasurer's Message



This document has been prepared to assist readers with understanding and interpreting the new financial reforms to take effect in the 2003-04 Budget.

The 2003-04 Budget will be developed within a framework based on full accrual accounting. This represents a new system of Budgeting that will result in:

- new headline measures for presenting the Budget Outcome and forward estimates; and
- presentation of the Budget in accordance with a recognised national framework that includes all sources of funds on an accrual basis.

Budgeting for the full costs of providing government services will enable both Parliament and the community to ensure that the Government is living within its means and is able to deliver sustainable services in the future.

Accrual accounting and financial reporting were introduced in 1996-97. The introduction of an accrual Budget in 2003-04 will provide a closer link to financial reporting and further demonstrates the Government's commitment to continuous improvement in financial management.

This reform will be embedded into the financial management framework over the next few years, with education, training and communication strategies planned for key stakeholders, to raise the level of knowledge and understanding of the new framework.

David Crean
Treasurer

Background

All Governments in Australia have implemented budgeting and financial management based on accrual principles, resulting in fundamental changes to Budget management practices with an emphasis on total resource management.

Tasmania for the past seven years has been implementing a Financial Management Reform Strategy. The strategy has included the introduction of accrual based reporting and accrual based accounting. Implementation of accrual budgeting is the fundamental next step for continuing improvements to financial management practices.

The Tasmanian Government agreed in 1999 to formulate the Budget on an accrual basis. The Government subsequently approved a three-year implementation strategy for accrual budgeting, with full implementation of an accrual budgeting framework to occur for the 2003-04 Budget.

The Accrual Budget and Financial Management Project (ABFM) was established in February 2000 to develop and coordinate the implementation of accrual budgeting in accordance with the three-year implementation strategy.

Purpose

This Brochure has been prepared to provide an introduction to the Accrual Budget Framework and provide a brief overview of new Budget presentation requirements and definitions of new Budget measures.

The New Accrual Budgeting Framework

Budget Scope

From 2003-04, the Budget will incorporate all Budget Sector agencies, as well as transactions for a number of entities that reside outside the Public Account but receive significant funding from Government, such as TAFE Tasmania and the Tasmanian Fire Service. These agencies and entities are known as the General Government Sector.

The financial transactions of Public Non-Financial Corporations (PNFC), such as Aurora Pty Ltd and Transend Pty Ltd, and Public Financial Corporations (PFC), such as the Tasmanian Public Finance Corporation and the Motor Accidents Insurance Board, are not reflected in the Budget.

Focus on the Public Account

The new Budget has transferred its focus from the Consolidated Fund to a wider focus on the whole Public Account. That is, the focus now includes activities undertaken through both the Consolidated Fund and the Special Deposits and Trust Fund (SDTF).

The achievement of the Budget result will require:

- effective management of revenues and expenses through the Public Account (i.e. the SDTF and the Consolidated Fund); and
- a greater emphasis on the management of other financial information contained in the Balance Sheet and Cash Flow Statement.

Accrual Information

Accrual information is a very effective financial management tool which can improve the quality of financial management and accountability in the public sector.

Accrual accounting records transactions when economic value changes rather than when cash changes hands. That is, an accrual system records transactions in the period in which revenue is earned or expenses incurred, regardless of whether a cash payment is made.

Practical Uses of Accrual information

Accrual accounting enables the production of reports that take account of all the resources an agency uses and administers to carry out its functions.

The production of accrual reports should not be viewed merely as an end of year requirement driven by external stakeholders. The information provided by these reports is a valuable management and accountability tool that can be used in planning, monitoring and managing the utilisation of the agency's resources. To gain the greatest benefit, accrual reports should be produced and used regularly throughout the year.

Benefits for the Government

Benefits for the Government, particularly Ministers and Budget Committee, include:

- the facilitation of the assessment of agency performance by showing the real cost of the services delivered;
- the provision of improved information on which to base funding decisions;
- the facilitation of the assessment of the financial position by showing all resources and obligations;
- the provision of a more accurate indication of intergenerational equity and financial sustainability; and
- improved forward planning.

Benefits for Parliament and the Community

The Parliament and the Community benefit through:

- improved accountability and greater transparency in reporting;
- information which enables a better assessment of the Government's financial performance; and
- being provided with a more accurate and longer term view of the State's financial position.

Benefits for Agencies

Benefits for agencies include:

- a wider range of information for monitoring and managing the delivery of Outputs and their costs;
- better information for day to day and strategic decision making;
- the ability to identify and make more effective use of total resources available;
- enhanced information for the management and utilisation of assets;
- improved forward planning;
- a more effective basis for undertaking comparisons, establishing trends and identifying performance benchmarks;
- a sound basis for consistent accountability and evaluation that facilitates the setting of financial targets; and
- the monitoring and assessment of the efficiency of output delivery against those targets.

Budget Presentation

Whole-of-Government Budget Presentation

Until now, the Tasmanian Budget has been prepared on a cash basis with a focus primarily on the Consolidated Fund. Budget presentation was not based on any particular standard or format, apart from statistical information presented in Budget Paper No 1 *Budget Overview*, which was in accordance with the Uniform Presentation Framework (UPF).

From 2003-04, Budget presentation at the whole-of-government level, in Budget Paper No 1 *Budget Overview*, will be based on the Uniform Presentation Framework (UPF) on an accrual basis, which provides details of the accrued expenses, revenues, payments, receipts, assets and liabilities of the Government in a standardised format. The move to an accrual UPF Budget is consistent with other Australian jurisdictions and discloses similar information to that presented in consolidated financial reports prepared under Australian Accounting Standards.

The Uniform Presentation Framework is based on the concepts and classifications used by the Australian Bureau of Statistics in the preparation of public finance reports. These, in turn, are based on international standards set out in the International Monetary Fund's *A Manual of Government Finance Statistics* and the United Nations' *A System of National Accounts*. The Government Finance Statistics classification adopts a nationally consistent format for presenting the financial transactions of governments and government trading enterprises. Government Finance Statistics is an accounting framework for the production of national and government accounts that facilitates comparison of financial performance across jurisdictions and is increasingly used by financial markets, credit rating agencies and other analysts and commentators.

The UPF was first established by the Australian Loan Council in May 1991. The Loan Council revised the Uniform Presentation Framework in March 2000 to adopt accrual Government Finance Statistics based reporting.

The format of the UPF is similar to Australian Accounting Standards (AAS), in that there is an Operating Statement (similar to a Statement of Financial Performance), a Balance Sheet (similar to a Statement of Financial Position) and a Cash Flow Statement (similar to a Statement of Cash Flows).

The UPF Operating Statement combines the normal accounting Operating Result with additional disclosures. The main focus of the Operating Statement is on the Fiscal Surplus/(Deficit) and Net Operating Result.

The UPF Balance Sheet classifies assets and liabilities as financial or non-financial, rather than current or non-current, as in accounting statements. The key focus is on Net Debt, Net Financial Liabilities and Net Worth.

The UPF Cash Flow Statement reports cash inflows and outflows, with the key focus being on the Cash Surplus and excludes non-cash accrual concepts, eg depreciation.

Examples of Budget Statements are provided on pages 9 to 11.

Agency Budget Presentation

Until now, the agency Budgets have been prepared on a cash basis with a focus on Outputs clearly segregated between the Consolidated Fund and SDTF. Budget presentation was not based on any particular standard or format.

From 2003-04, agency Budgets, in Budget Paper No 2 *Operations of Government Departments*, will be presented in accordance with Australian Accounting Standards. As agency financial statements are currently prepared in accordance with applicable Australian Accounting Standards, the new agency Budget presentation will provide greater comparability between agency budgeting and reporting.

The accrual financial statements presented for agencies include a:

- Statement of Financial Performance;
- Statement of Financial Position; and
- Statement of Cash Flows.

A budgeted Statement of Financial Performance will be presented for each agency for both controlled and administered items and for each Output Group within the agency. This Statement will incorporate existing cash based Budget information, with the addition of depreciation and other accrual items. There will no longer be a clear segregation by Consolidated Fund and SDTF consistent with the total Public Account focus. However, the appropriations to agencies will still be clearly identifiable.

Agency chapters will also include a budgeted Statement of Financial Position and a budgeted Statement of Cash Flows for both controlled and administered items.

Appropriations

The Budget will be prepared, reported and managed on an accrual basis, with appropriations to agencies remaining on a cash basis from the Consolidated Fund. Accrual items such as accrued employee entitlements and accrued expenses will be appropriated when the cash is required by the agency, which may not be in the same year as the expense is incurred.

Financial Reporting

The move to an accrual based Budget presentation will require changes to the financial reporting requirements, including the contents and timing of reports and auditing requirements to align with the new accrual budgeting framework.

A review of these requirements is currently in progress.

Key Budget Measures

Operating Statement

Net Operating Result

The Net Operating Result is the excess of revenue over expenses. The Net Operating Result excludes capital expenditure, but includes non-cash costs such as accruing superannuation entitlements and depreciation.

By including all accruing costs, including depreciation, the Net Operating Result encompasses the full costs of providing government services. This makes it a good measure of the sustainability of the government's fiscal position over time and provides an indication of the sustainability of the existing level of government services.

A Net Operating Surplus indicates that there are funds available, on an accrual basis, to increase service delivery, increase assets or to decrease liabilities. A deficit indicates that one off expenditure may have occurred, sourced from cash reserves, to meet one off projects or programs, and/or revenues are not sufficient to meet all expenses for the current year.

Fiscal Surplus

The Fiscal Surplus represents the difference between General Government revenue over expenses. It includes capital expenditure, but excludes depreciation.

The Fiscal Surplus measures a Government's investment-saving balance and is a useful indicator of funds available for application to either assets or liabilities. A Fiscal Surplus indicates that the Government is saving more than enough to finance all of its investment spending.

In a year in which the Government undertakes major capital works, other things being equal, a Fiscal Surplus will be lower compared with the Net Operating Result.

Balance Sheet

Net Debt

Net debt is the same under cash and accrual-based financial reporting. Net debt comprises the stock of specified gross financial liabilities (borrowings and advances) less selected financial assets (cash deposits and investments).

The stock of Net Debt is a common measure used to help judge the overall strength of a jurisdiction's fiscal position. High levels of net debt impose a call on future revenue flows to service that debt and can therefore limit a Government's flexibility to adjust expenditure.

Net Financial Liabilities

Net Financial Liabilities is Net Debt plus gross unfunded superannuation liabilities. It differs from the Net Debt measure as it includes accrued employee liabilities.

This additional information is important in gauging the strength of a Government's fiscal position as well as being another indicator of the call on future revenue flows to service the liability.

Net Financial Worth

Net Financial Worth measures a Government's net holdings of financial assets. Net Financial Worth includes all classes of financial assets and liabilities, only some of which are included in Net Debt, and excludes physical assets, such as Land and Buildings.

It avoids concerns inherent with assets relating to the valuation of non-financial assets and their availability to offset liabilities.

Net Worth

Net Worth provides a more comprehensive picture of the Government's overall financial position than the Net Debt measure. It is calculated as total assets (both financial and non-financial) minus total liabilities.

Net Worth incorporates the Government's non-financial assets such as land and other infrastructure assets, as well as certain financial assets and liabilities not captured by the Net Debt measure, most notably accrued employee superannuation liabilities, debtors and creditors.

Cash Flow Statement

Net Increase/(Decrease) in Cash

The Net Increase/(Decrease) in Cash shows the net result of all cash receipts and payments for the current financial year.

The measures provided in the Cash Flow Statement provide a mechanism for managing the cash position to ensure that sufficient cash is available to fund Government policy decisions without the need to borrow.

Cash Surplus

The Cash Surplus is important for cash management purposes. The Cash Surplus represents the difference between General Government revenue over expenses (including capital expenditure) on a cash basis.

The Cash Surplus is equivalent to the Fiscal Surplus but excludes accrual items.

Example Operating Statement

	2002-03	2003-04
	Budget	Budget
	Estimate	Estimate
	\$m	\$m
Revenue		
Taxation Revenue		
Grants and subsidies		
Sales of Goods and Services		
Interest Income		
Dividend Income		
Other revenue		
Total Revenue		
Expenses		
Employee expenses		
Other operating expenses		
Depreciation		
Nominal superannuation interest expenses		
Other interest expenses		
Grants and transfers		
Total Expenses		
Net Operating Result		
Net Acquisition of Non-Financial Assets		
Purchase of non-financial assets		
less sale of non-financial assets		
less Depreciation		
plus Change in inventories		
plus Other transactions in non-financial assets		
Total		
Fiscal Surplus/(Deficit)		

Example Balance Sheet

	2002-03	2003-04
	Budget	Budget
	Estimate	Estimate
	\$m	\$m
Assets		
Financial Assets		
Cash and Deposits		
Advances Paid		
Investments, Loans and Placements		
Other Non-Equity Assets		
Equity		
Total		
Non-Financial Assets		
Land and Fixed Assets		
Other Non-Financial Assets		
Total		
Total Assets		
Liabilities		
Deposits Held		
Advances Received		
Borrowing		
Unfunded Superannuation Liability		
Other Employee Provisions		
Other Non-Equity Liabilities		
Total Liabilities		
Net Worth		
Net Debt		
Net Financial Worth		
Net Financial Liabilities		
Net Financial Worth		

Net Worth

Net Debt

Net Financial Liabilities

Net Financial Worth

Example Cash Flow Statement

	2002-03	2003-04
	Budget	Budget
	Estimate	Estimate
	\$m	\$m
Cash Receipts from Operating Activities		
Taxes Received		
Receipts from Sales of Goods and Services		
Grants and Subsidies Received		
Interest received		
Other Receipts		
Total		
Cash Payments for Operating Activities		
Payment for Goods and Services		
Grants and Subsidies Paid		
Interest Paid		
Other Payments		
Total		
Net Cash Flows from Operating Activities		
Net Cash Flows from Investments in Non Financial Assets		
Sales of Non-Financial Assets		
Purchases of new Non-Financial Assets		
Total		
Net Cash Flows from Investments in Financial Assets		
for policy purposes		
Net Cash Flows from Investments in Financial Assets		
for liquidity purposes		
Net Cash Flows from Financing Activities		
Advances Received (net)		
Borrowing (net)		
Deposits received (net)		
Other Financing (net)		
Total		
Net Increase/(Decrease) in Cash Held		
Cash Surplus/(Deficit)		

Reconciliation

The 2003-04 Budget will be a fundamental change to the way that the Tasmanian Budget has historically been presented. To assist in the interpretation of the new Budget headline measures, a reconciliation will be presented in Budget Paper No 1 Budget Overview.

The following table briefly outlines the key differences between the Consolidated Fund Surplus, the Cash Surplus and the Fiscal Surplus for the General Government Sector. This will form the basis of the Budget Paper No 1 reconciliation.

	Consolidated Fund Surplus
	(+) Special Deposits and Trust Fund Transactions (+) Statutory Authority Cash Transactions
=	Cash Surplus
	(+) Accrual Items
=	Fiscal Surplus

Summary

- **The Budget will be presented on the basis of nationally recognised frameworks in accordance with accrual accounting principles.**
- **The Budget presented in Budget Paper No 1 *Budget Overview*, will be in the form of an Operating Statement, Balance Sheet and Cash Flow Statement in accordance with the Uniform Presentation Framework¹.**
- **The Headline Budget Measure will be the Fiscal Surplus from the Operating Statement, supported by additional measures from the Balance Sheet and the Cash Flow Statement.**
- **The State Budget will be developed, projected and managed for the whole Public Account.**
- **Agency Budgets in Budget Paper No 2 *Operations of Government Departments* will be in the form of a Statement of Financial Performance, a Statement of Financial Position and a Statement of Cash Flows, in accordance with the Australian Accounting Standards (AAS)¹.**
- **Appropriations to agencies will continue to be on a cash basis.**
- **Financial reporting will be reviewed to complement changes for accrual budgeting.**

1. Financial statements in Budget Paper No 1 *Budget Overview* will be presented in accordance with the Uniform Presentation Framework, whereas the financial statements in Budget Paper No 2 *Operations of Government Departments*, will be presented in accordance with Australian Accounting Standards.

