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15 May 2001

Dr Margot Kerley
Committee Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Dr Kerley

Review of the Accrual Budget Documentation

Thank you for the opportunity to comment on the JCPAA's review of the Commonwealth's accrual budget documentation. Rather than providing a detailed analysis of the documentation, CPA Australia will take a broad view in this submission and address the significance of this type of information for government decision making.

The development of the accrual framework for government has been a long process which has required significant changes to traditional processes and culture. The recent shift to accrual output/outcome budget documentation has been a substantial change for the public sector, particularly in relation to the budget process, the backbone of the Westminster system of government, which has been based on cash information for nearly a century.

CPA Australia has long advocated the Commonwealth's adoption of an accrual framework in its budget and reporting processes. We believe that it has been a tremendous achievement for the Commonwealth's accrual framework to progress this far with bipartisan support.

Until the new processes and information are incorporated as part of normal operations, CPA Australia recommends a settling period of at least five years is required for changes to be appropriately tested. After this time, benefits to decision-making processes should ensue.

The enhanced information on the full cost of outputs/outcomes that is now available to the bureaucracy and Parliamentarians should allow them to make more informed decisions about the allocation of scarce resources efficiently and effectively, while also clearly demonstrating to the community the true cost of goods and services that they consume.

Obviously when you change the way you prepare the budget and report your results, there is going to be a period of instability and a need for ongoing refinement. Comparisons for year-to-year and budget-to-actual are more difficult in the formative years as each year systems and processes improve and become more sophisticated. Over time, the bureaucracy and Parliamentarians become more familiar with the information they are reporting and receiving.

Variations and changes to the information presented from period-to-period can be confusing to readers and decision-makers but can be partly addressed if maps or notes are provided which highlight the changes in outputs, outcomes or performance measures. Over time such amendments should be limited and would be more likely occur as a result of changes in policy.

CPA Australia recommends greater resources be allocated to educating key decision-makers regarding interpreting and making decisions based on this accrual information. There has been a major shift in psyche and those impacted need to be supported through this change. Once Parliamentarians start to feel comfortable with the information they can then ask informed questions of the bureaucracy about the goods and services that are being delivered.

We recognise that the Commonwealth's accrual output/outcome framework is operating throughout the public sector, however, once the sector becomes more experienced with the framework, greater alignment between the budget statements and the departmental annual reports should ensue. This will provide the public sector and parliamentarians with the ability to benchmark and compare the cost and value of services being delivered.

CPA Australia believes that there is also merit in reviewing the Australian Bureau of Statistics (ABS) request for the Government Finance Statistics (GFS) (which is often driven by economics) and the accounting data compiled in accordance with the Australian Accounting Standards framework. In some cases there is duplication of effort and for what value? The accounting information is designed to facilitate management decision-making critical to any organisation. However, it is unclear as to the purpose of the GFS data sought by the ABS.

There appears to be reliance in the overall budget process on cash data (for example, the underlying cash balance). This could be due to the lack of understanding of the information presented under an accrual framework. The accrual framework still provides for cash information and although critical, it is only one resource available to an agency. Cash information should complement accrual-based data, not replace it.

The implementation of an accrual framework has highlighted recognition and recording of public assets within the budget papers and annual reports. It is true to say that the asset base of some agencies is significant and clearly need to be measured and reported effectively. The heads of the bureaucracy and Parliamentarians require robust information on assets in order to make informed investment decisions and to understand the flow on impact from holding assets to delivery of outputs - that is, the impact of depreciation, capital user charges and maintenance expenses. An informed understanding of assets will assist in displaying the full cost of outputs/outcomes. This will allow for better benchmarking from year-to-year and more effective evaluations output prices. Similarly, liabilities need to be recognised, reported and managed.

Capital charging is a management tool employed to allow the government's cost of capital invested in assets to be estimated. The capital user charge (CUC) is a basis to allocate the cost of capital in departments and agencies and represents the cost of capital used in the provision of outputs. CPA Australia believes that there is merit in reviewing the application of the CUC given it is designed to measure the opportunity cost that being the potential return if the government directed capital towards the next best investment of comparable risk. It would appear that it is questionable to use net assets as the base for charging the CUC. By using the net assets base, the agency is being charged CUC on movements in the operating result, so if an agency makes a surplus (the expected) they are penalised. However, if the agency were to be charged on the controlled, non-current physical assets, the agency is being measured fairly on the assets within their management control.

Should you have any queries in relation to our response or require further input from CPA Australia into JCPAA inquiries, please contact Adam Awty, Public Sector Adviser, on Tel: (03) 9606 9858 or by email on awtya@vic.cpaonline.com.au.

Yours sincerely

(Signed by Des Pearson)

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