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Comprehensive overview of Accrual Budgeting



Public Services and
Procurement Canada

Services publics et
Approvisionnement Canada

Canada

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1 Background on Accrual Budgeting at PSPC



Background

2005

DND implemented accrual budgeting.

2014

Department of Finance approached PSPC to propose moving the department under an accrual budget framework as a way to provide PSPC with stable capital funding.

**Budget
2017**

Formally requested that both departments develop an accrual budget framework.

2017

PSPC first had to implement the Capital Asset Way Forward (i.e., the componentization of buildings assets) to maximize the benefit of implementing an accrual budget framework.

2019

Budget 2019 announced predictable capital funding for PSPC.



2 What is Accrual Budgeting?



Accounting Principles – Capital Assets

What is a Capital asset?

- A Capital asset is an asset that is tangible, like a vehicle or a bridge.
- It is used to further departmental objectives.
- It has a life that extends beyond 1 year.
- It is not for sale in the ordinary course of operations.

What is a betterment?

- A project done on an existing Capital asset which appreciably prolongs the useful life, improves its functionality, service capacity or decreases related operating cost.
- Alternatively, repairs and maintenance on an asset simply maintain the existing functionality of the asset.



Component Approach

Capital Vote 5 re-definition — *Government-wide*

- Scope: all Crown-owned assets (buildings, holdings, IT, etc.).
- Has been implemented at PSPC as of April 1, 2018.

Component Approach — *Real Property Services and Science and Parliamentary Infrastructure Branch*

- First and only department to embark on component approach.
- Scope: PSPC Crown-owned building assets.
- Current Building Asset will become a sum of Multiple component.
- All capitalizable portions of projects must be managed at the component level.



Component Approach to Crown-owned Buildings

- A building is no longer considered a whole asset, but is made up of several smaller assets, called “components”.
- Every component is an asset in itself and has its own accounting value and remaining useful life.



What is Accrual Budgeting?

An extension of accrual accounting, which focuses on expenses rather than cash.

Costs of acquiring an asset are proportionately expensed based on the time period during which they are used.

Annual accrual limits are on expenses rather than upfront cash but management of cash has impact on accrual budgeting.

Commonly used in the private sector.



What is Accrual Budgeting? (Cont'd)

Cash vs Accrual

	Current (Cash)	Future (Accrual)
Process	Funding is generally sought on specific projects, above A-base funding, on a case by case basis with short term cash projections.	Emphasis is on long term (20-year) asset management profile with access to stable capital funding available to all Programs within PSPC.
Benefits / Challenges	Difficulty in planning long term due to lack of secured funding. Approval requires two steps: Securing a source of funds with Dept. of Finance and seeking Treasury Board approval.	Will already have a secured source of funds for future projects. Approval will now only require one step, which is to receive Treasury Board approval, as the source of funds has already been confirmed.
No Change	Project and contract approvals are still required as well as seeking cash via the Estimates Process.	



What is Accrual Budgeting? (Cont'd)

Capital Investment Fund (CIF)

The PSPC CIF is a dedicated source of funds in the Fiscal Framework defined on an accrual basis that will establish a ceiling for the accrual profile for PSPC's existing and planned tangible capital assets.

CIF establishes a “ceiling” (Baseline Accrual Space - BAS) for the accrual profiles.

The CIF will fund all PSPC capital investments.

Capital investments will be selected based on portfolio plans priorities.



What is Accrual Budgeting? (Cont'd)

Baseline Accrual Space

The Baseline Accrual Space (BAS) is the annual limit of capital expenses on an accrual basis.
(i.e. planned + in progress + completed investments)

Annual “ceiling” of accrual space over a 20-year period reset every 3 years:

- Provides flexibility to make adjustments to reprioritize investments.
- Annual reporting on variances between actual accrual results and the BAS.

Investment decisions will affect capacity to invest in future years.

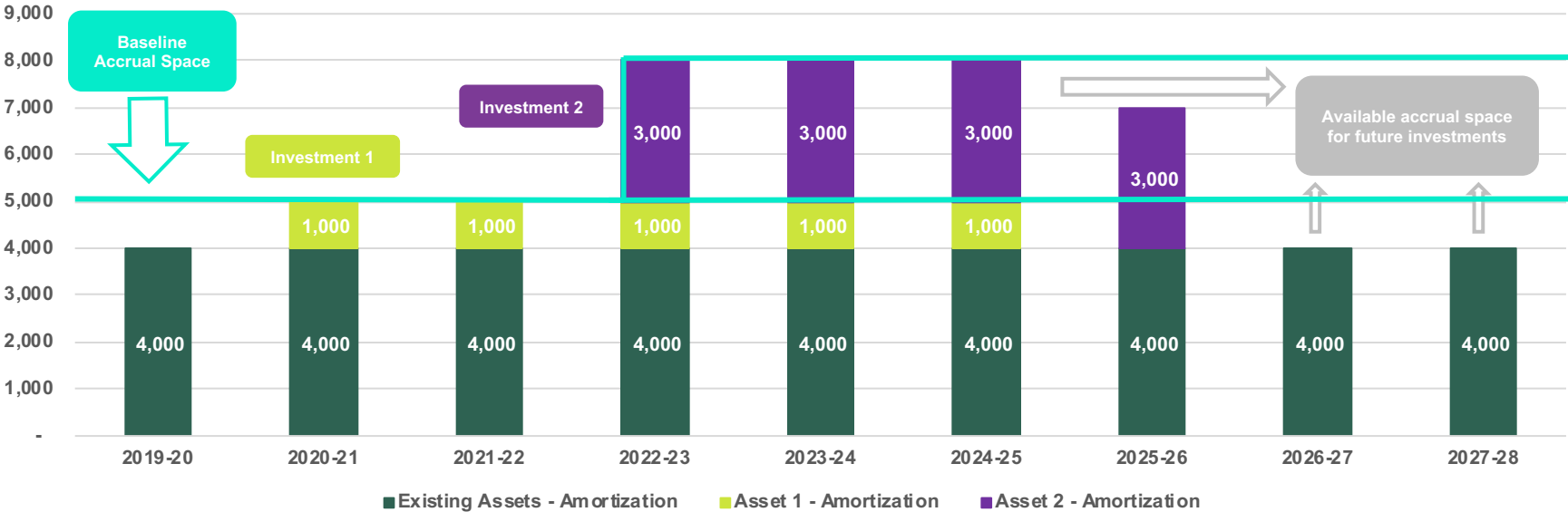
Sufficient space needed in the accrual envelope before requesting funds on a cash basis via the Estimates.



What is Accrual Budgeting? (Cont'd)

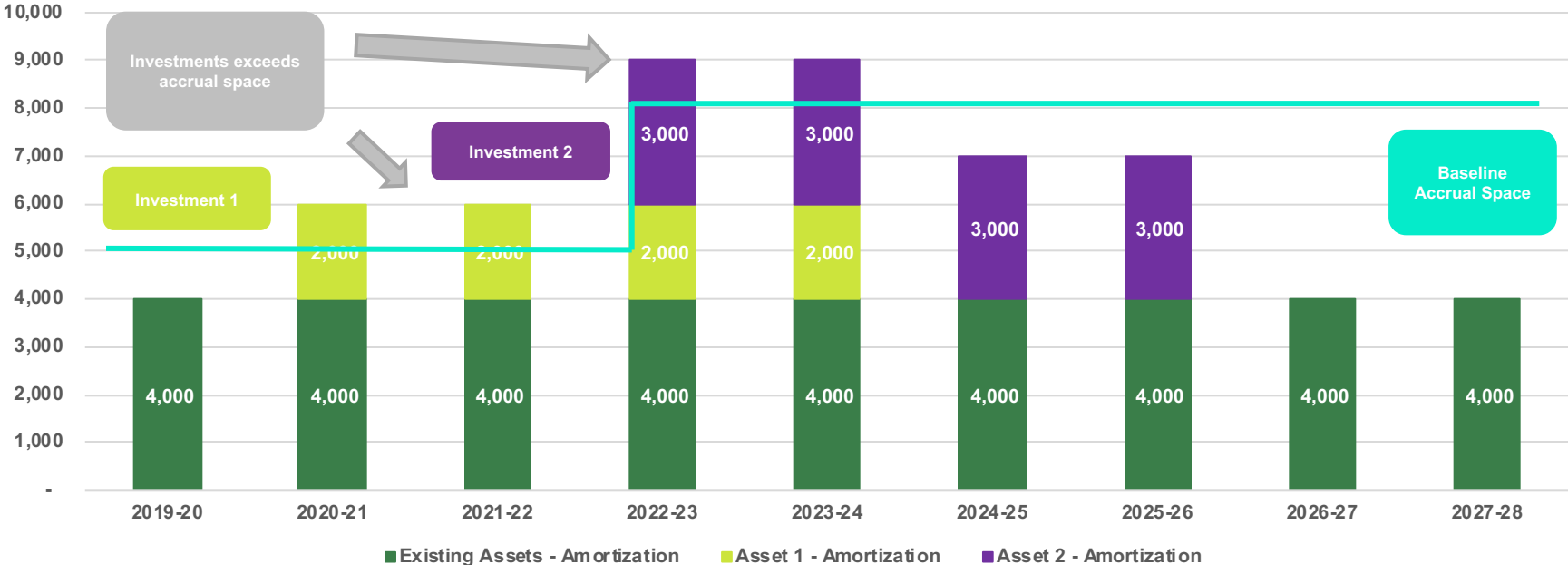
Example 1: Impact of Investments on the BAS

(Numbers in thousands)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Investment 1 - Cash	5,000								
Asset 1 - Amortization		1,000	1,000	1,000	1,000	1,000			
Investment 2 - Cash			12,000						
Asset 2 - Amortization				3,000	3,000	3,000	3,000		



What is Accrual Budgeting? (Cont'd)

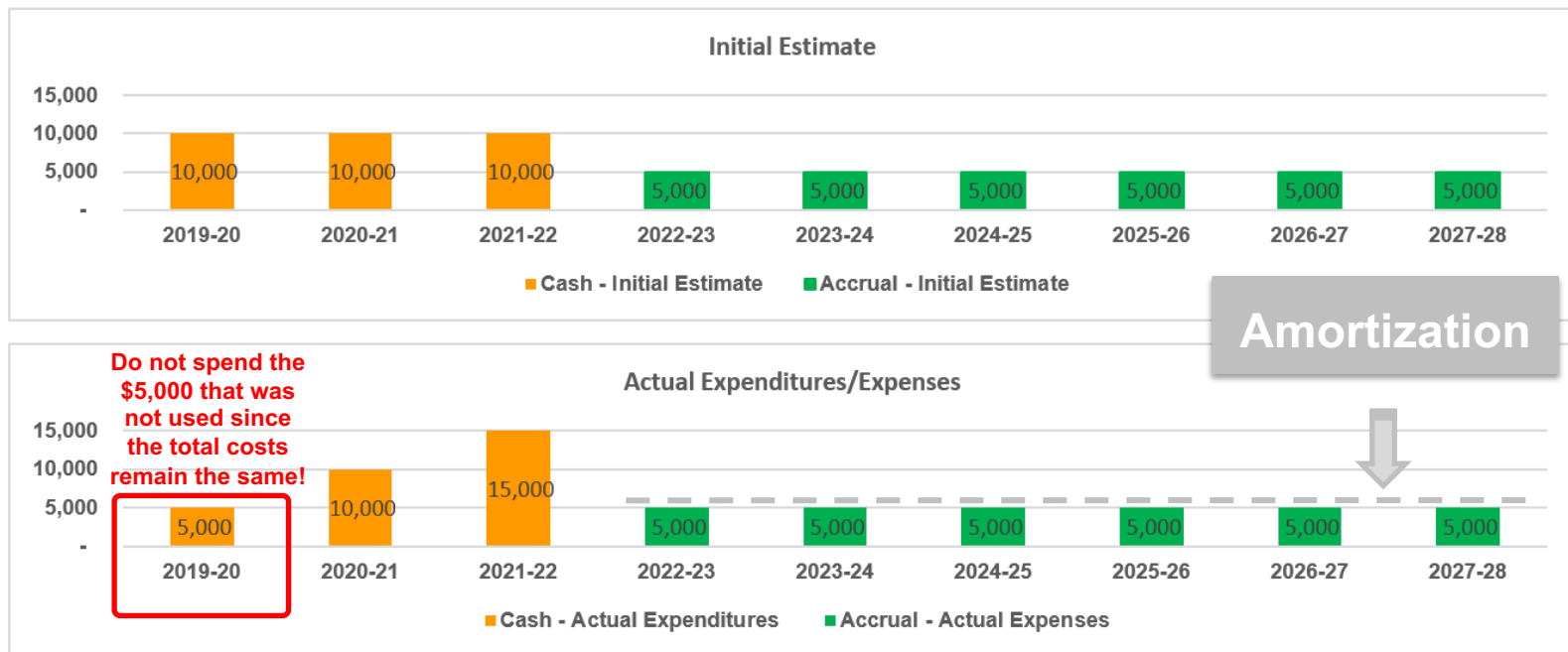
(Numbers in thousands)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Investment 1 - Cash	8,000								
Asset 1 - Amortization		2,000	2,000	2,000	2,000				
Investment 2 - Cash			12,000						
Asset 2 - Amortization				3,000	3,000	3,000	3,000		



What is Accrual Budgeting? (Cont'd)

Example 2: Initial Estimate vs Actuals

(numbers in thousands)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Cash - Initial Estimate	10,000	10,000	10,000						
Accrual - Initial Estimate				5,000	5,000	5,000	5,000	5,000	5,000
Cash - Actual Expenditures	5,000	10,000	15,000						
Accrual - Actual Expenses				5,000	5,000	5,000	5,000	5,000	5,000



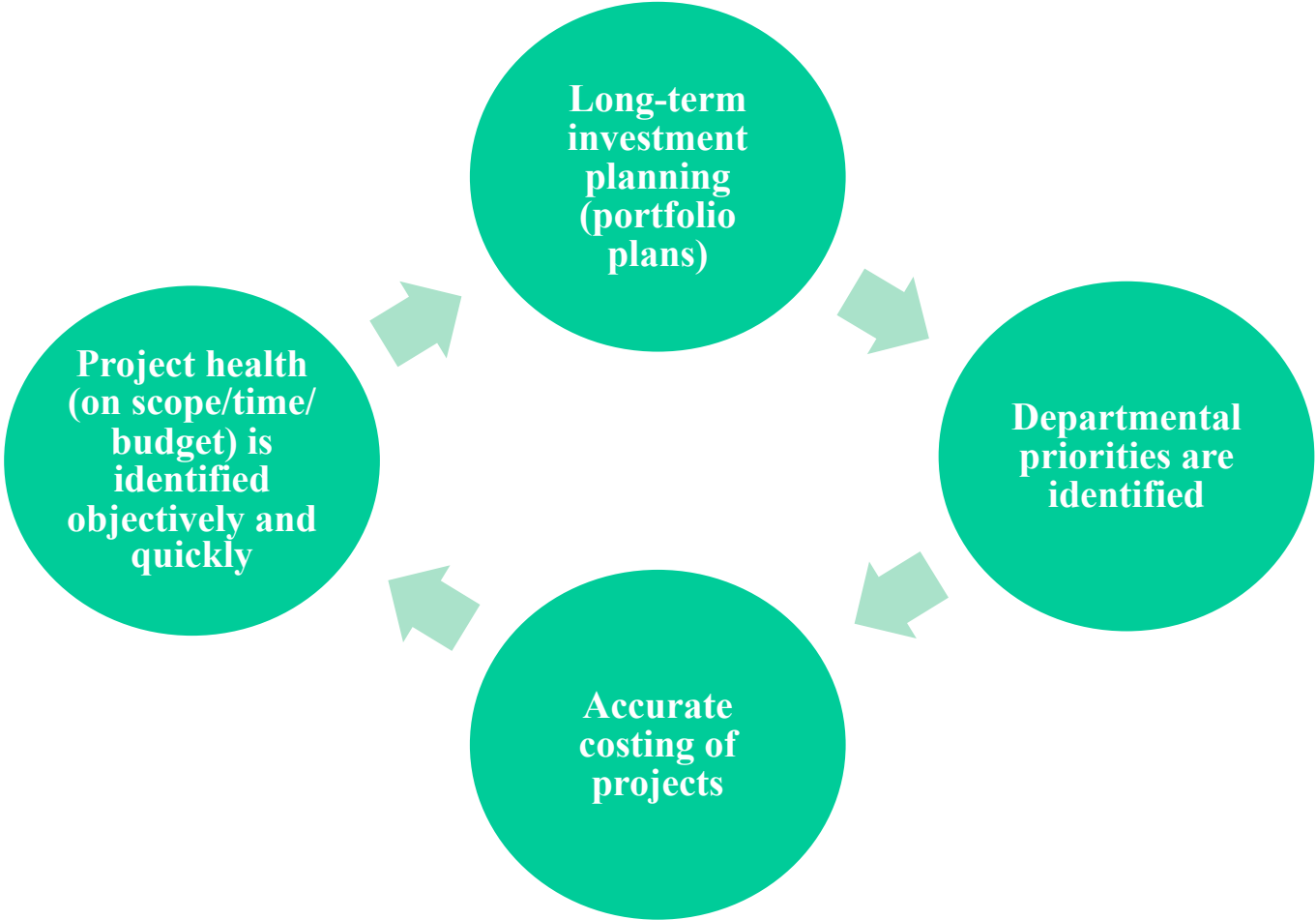
* Please note that even if the actual cash flows per year are different, in this example, there is no change on the impact on the BAS since the total costs are the same.

3

Key Pillars for success



Four Key Pillars for success



Lessons Learned thus far

Policy

Changes to accounting policy can have a significant impact on a department's accrual space (ie. changes to amortization schedules).

Team

Consideration should be given to resources required to operate the accrual budgeting framework in each branch.

Central Agencies

Ensure Central Agency documents are in order (reprofiles and accrual profiles in TB submissions).

Investment Plan

Align, as much as possible, the accrual budgeting envelope launch with investment plan.



Progress in Implementing Accrual Budgeting at PSPC

Implementation of the component approach for amortization of buildings.

Dedicated teams – A project implementation team and a monitoring and reporting team have been established.

Implementation of accrual tool to track envelope – provides holistic view of all PSPC projects.

Implementation of portfolio plans – Currently in progress.

Majority of project information now included in PS Module.

