September 2013

Treasury Reporting Guidelines
Variation Commentary
Guide for agencies

Contents

This September 2013 document, *Treasury Reporting Guidelines Variation Commentary Guide for agencies*, supersedes the previous version dated September 2012.

Part 1: Overview – Agency Variation Commentary

Introduction

The TOES ‘Variation Explanation’ page enables Agencies to provide material explanations on year-to-date (YTD) budget and full year (FY) projection variances.

From Period 3 2013-14, all general government agencies are required to update the Variation Explanation page on major aggregates expenses, revenue and capital. There is also a section to provide information on Emerging issues. The commentary is to be updated as part of the monthly reporting cycle and therefore must be completed and submitted with the monthly data transmitted to Treasury.

Purpose

By capturing variance information in TOES, it supports the devolved accountability model. This information can be utilised by Treasury and Cluster Chief Financial Officers to identify revenue and expenditure patterns.

What do agencies need to do?

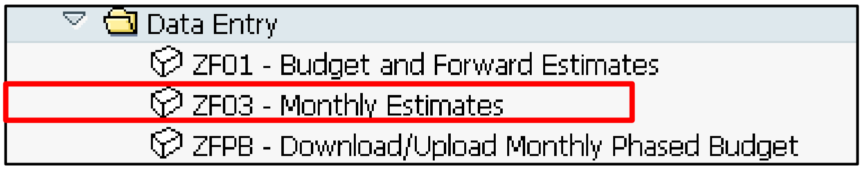
Part 2 of this document provides a step by step guide to completing your agency variation commentary.

Part 3 lists requirements including materiality and style guidelines.

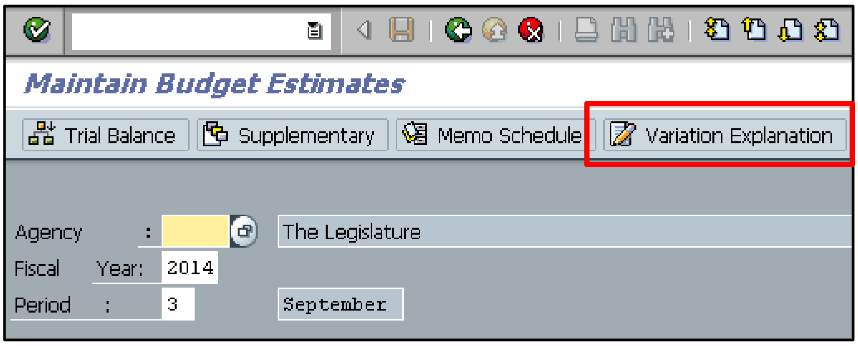
Part 4 defines emerging issues.

Part 2: Entering Variation Commentary in TOES

1. Log into TOES and execute transaction ZF03 – Monthly Estimates (in the data entry folder).

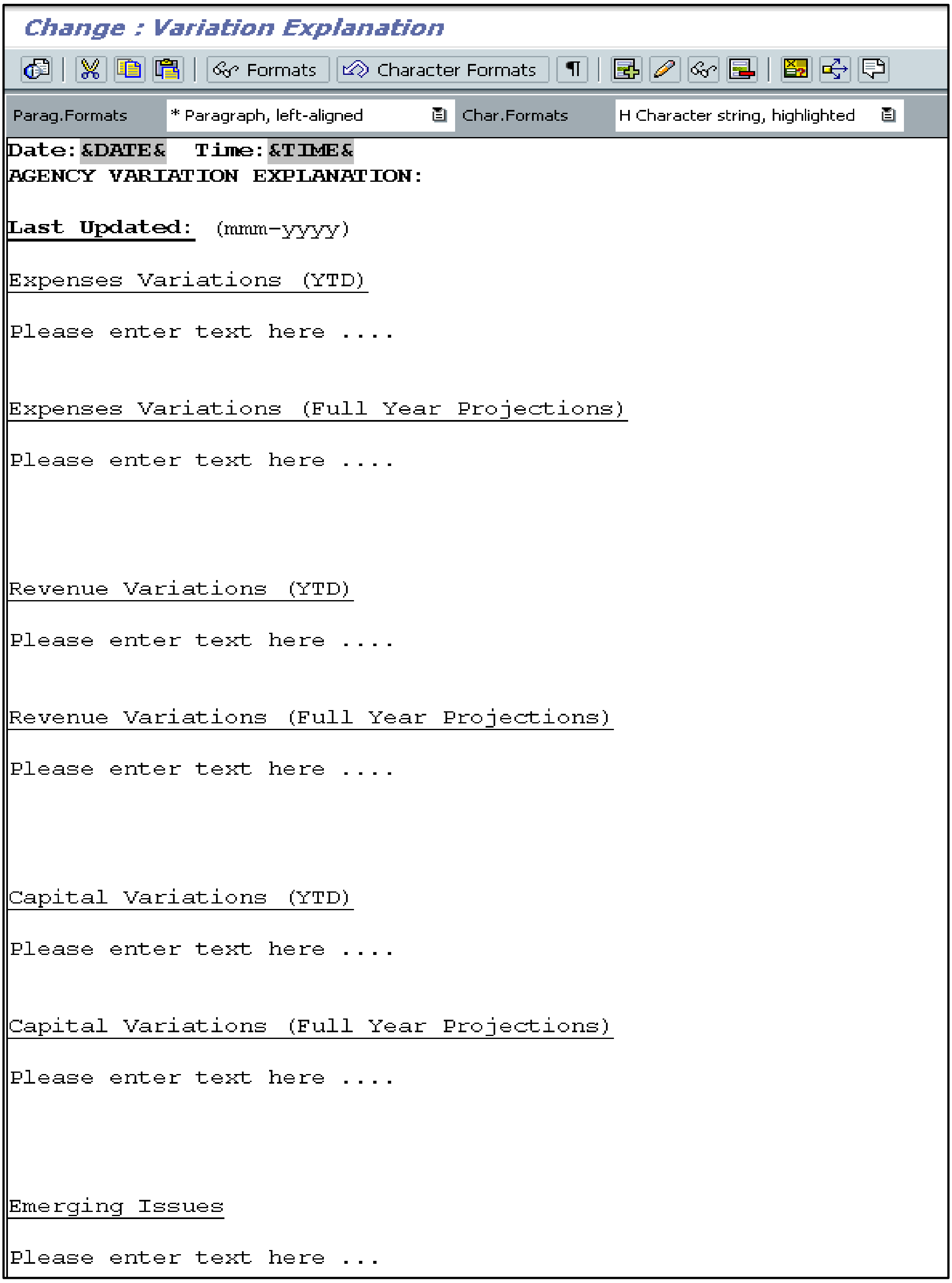


2. Enter agency number, press return, and then click on the Variation Explanation button.



3. The Variation Explanation page will open.

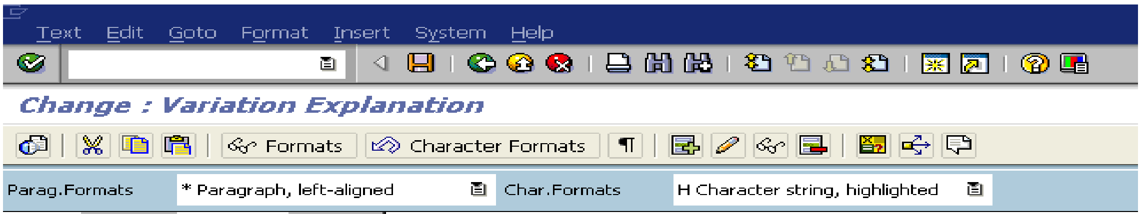
Enter commentary by major aggregate for both YTD budget and FY projection variances.



Select  to save your latest updates.

Click  to exit.

Below is an example:



Date: &DATE& **Time:** &TIME&
AGENCY VARIATION EXPLANATION: 00100-The Treasury

Last Updated: SEPTEMBER 2013

Expenses Variations (YTD)
YTD expenditure is currently $18m favourable to budget. The main variances are due to:
*$15m favourable variance to budget in employee expenditure as a result of staff vacancies in the divisions of ABC ($8m), BCD($5m) and DEF($2m). These vacancies are expected to be filled next month.
*$3m favourable variance in other operating expenditure resulting from less activity due to lower than expected staff numbers.

Expenses Variations (Full Year Projections)
The projected expenditure is $35m favourable to budget.
The main variances are due to:
*Decrease of $20m in grant expenditure due to a reduction of payments to local government due to bringing function X in house. No corrective action required.
*The full year impact of savings in employee expenditure of $15m and other operating expenditure of $3m is expected to remain as they stand as positions are expected to be filled by next month.

Revenue Variation (YTD)
Unfavourable variance of $23m due to lower than expected investment fund returns from July 2013 to August 2013 due to a weaker performance of the share market.

Revenue Variations (Full Year Projections)
The projected revenue is $70m unfavourable to budget due to lower than expected investment fund returns, due to a weaker performance of the share market. No corrective action required.

Capital Variations (YTD)
The $10.5m underspend relates to ICT Assist program (software compatibility and testing issues) and special needs program being underspend due to delays in development approval and lease negotiations. This is a timing difference and is expected to be re-aligned to budget by the end of the year.

Capital Variations (Full Year Projections)
Overspend of $35m due to an adjustment on Commonwealth National Partnerships to bring forward spending on Trade Training Centres in Schools NP. It is expected that YTD unspent projects are expected to be in line with budget by the end of the year.

Emerging Issues
Expected valuation increase in assets due to the review of useful life of building assets. The expected impacted is $300m increase in depreciation.

Part 3: Commentary Requirements

Explanations to variations against Budget are to be provided on a monthly basis. Commentary is to be provided based on the variations shown in transaction ZRM2 - Monthly Phased Budget vs Actual Report.

Timing

Variation commentary will be due back in line with the actual and projection data collection, normally working day eight.

Variation Explanation Fields

Variances are to be explained for each of the following key areas:

Expenses variations (YTD and full year projection)
Revenue variations (YTD and full year projection)
Capital variations (YTD and full year projection)

There is also a section to comment on emerging issues.

A concise explanation of the net cost of service variation is required. It should be understandable for persons unfamiliar with specific agency operations. The main requirement is to give the reason behind the variation i.e. <u>why</u> there is a variance. Where the variation is over, the explanation must also include an explanation of the corrective action to be taken.

Materiality

Items to be included in the commentary should include material variances and politically sensitive information. Materiality for the purposes of the monthly reports is defined as more than $1 million or 5% for each of the above. Given this report is also to be used within clusters; a lower materiality threshold can be set within clusters, so please confirm with your Cluster Chief Financial Officer. Variation explanation is required for any variances to budget for the Consolidated Fund accounts.

The variation explanations should include details of both underspend and overspend.

General Rules

Items to be included in the variation explanation should include material variances, as defined above.

The explanation should be readable by a 3rd party at arm’s length and should answer the following four questions:

1. *$ Value* of the impact.
2. Impact *of* the variation i.e. "favourable” or “unfavourable”.
3. *Driver* of the variation.
4. *Corrective action* being taken/required if applicable.
   Example: ($40m) decrease in expenditure due to delay in building 2 tunnels (Sydney Metro Tunnel and Sydney North Tunnel) due to planning approval delays.

Be specific where possible regarding deferrals i.e. why it is being deferred, and to what period it is being deferred to.

When using the agency name, acronyms are to be used e.g. TfNSW = Transport for NSW.

Numbers

The below outlines how numbers should be treated in the monthly reports variation explanation:

- Decimals to one decimal place are to be used.
- “$” sign is always to be used for figures (there is no space between the “$” and the number).
- The following symbols are to be used:
  - thousands: k
  - millions : m
  - billions: b

    (Note: these are all lower case and are used directly after the figures – no space).

Sentences/paragraphs

Sentences/paragraphs should be treated in the variation explanation, for example:

- Dot point lists are to be used when more than one item is being used in the explanation.
- * is to be used in dot point lists.

Part 4: Emerging Issues

What is an Emerging Issue?

Emerging Issues are Items **not already captured** in the **Monthly Estimate Projections/Budget and Forward estimates** (therefore not detailed in the variation module).

Examples of emerging issues are:

- key risk areas that could impact the quality or timeliness of your financial statements
- significant asset revaluations
- significant revenue /expense items – i.e. significant in size compared to the previous year (it is not necessary to report to The Treasury about superannuation, as it is generically volatile)
- significant adjustments direct to equity – for example from agency restructures
- new disclosures resulting from the adoption of accounting standards, changes in accounting policies
  - discontinuing operations,
  - sale of a significant asset,
  - new business acquisitions etc.
- the accounting treatment of new privately financed projects, i.e. new or significant changes to contingent liabilities/assets
- any unresolved accounting policy issues or other matters which the Audit Office has indicated may lead to the qualification of the Independent Auditor's Report.
- material budget variation
- risk of non delivery (performance risk not captured in Fiscal Effectiveness Office (FEO) system).

Appendix 1: Where to go for help

If you have inquiries or have any issues relating to Variations Commentary, please contact:

Accounting Issues	Your Treasury Analyst	
User queries and training	Financial Reporting & Systems	9228 4095
Password, system access problems	Information Management Systems	9228 4034