

## DRAFT SECOND READING SPEECH

HON. PETER GUTWEIN MP

### *Financial Management Bill 2015*

*\*check Hansard for delivery\**

Madam Speaker

The existing financial management framework reflects the financial administration and budgeting practices of the late 1980s. While legislation has been periodically amended to accommodate changes, it has become increasingly apparent that the framework no longer represents best practice and that a full review of the framework, including the structure of the legislation, was required.

The following reforms have taken place as part of the Financial Management Framework Review:

- the introduction of the *Charter of Budget Responsibility Act 2007*;
- the introduction of the *Audit Act 2008*; and
- the introduction of quarterly reporting through the *Financial Management and Audit Amendment Act 2012*.

The Financial Management Bill 2015 will replace the *Public Account Act 1986* and remaining financial management provisions in the *Financial Management and Audit Act 1990*.

The Bill has been widely consulted on, including briefings with key stakeholders including the Auditor-General and the Public Accounts Committee.

Madam Speaker, the Financial Management Bill will broaden the scope of Tasmania's financial management framework. Currently, only government departments and parliamentary and integrity entities operate within the financial management framework, with other General Government Sector entities operating in accordance with their individual enabling legislation. The Financial Management Bill includes all General Government Sector entities under a single, cohesive framework.

The Government is directly accountable for the activities of General Government Sector entities and for the Budget outcomes of the General Government Sector. The application of a single, cohesive framework, covering all General Government Sector entities would reduce the Government's exposure to financial risk and enhance accountability and transparency.

Madam Speaker, the Public Account currently comprises two separate funds, the Consolidated Fund and the Special Deposits and Trust Fund, with each fund operating under a different set of rules. Under the Financial Management Bill, there will be a single fund structure with a single set of rules providing the Government with significantly enhanced control over the entire Public Account.

The Public Account will comprise the receipts of the General Government Sector, expenditure of the General Government Sector and any Specific Purpose Accounts established under the Act.

Madam Speaker, there are instances where money is held by the Government in trust and may only be used in accordance with the terms of the trust. The Bill provides that money held by the Government in trust will be clearly accounted for in Agency Trust Accounts, as determined by the Treasurer, and will not form part of the Public Account. This clearly recognises the trustee nature of those monies.

Madam Speaker, current arrangements for the Treasurer's Reserve under the Public Account Act are complex and provide an uncapped source of funding that could discourage effective fiscal responsibility. The Financial Management Bill improves the transparency of the Treasurer's Reserve by providing a more simple calculation of the Reserve amount and making the size of the effective buffer more certain.

The Bill specifies the composition of the Treasurer's Reserve as:

- an amount that is contingently appropriated in the annual Appropriation Act; and
- receipts, excluding additional Commonwealth money, that are additional to the total estimated receipts in the Appropriation Act.

Additional Commonwealth money received by the State is dealt with separately in the Bill and will now be appropriated directly.

The Bill also sets a maximum limit for the Reserve of 2.5 per cent of the total appropriation in the Appropriation Act for that financial year.

Madam Speaker, other Australian jurisdictions use a variety of terms to denote the person or body responsible for the financial management of a Government entity. Currently, the FMAA applies only to agencies and the term "Head of Agency" is used to describe the person ultimately responsible for the financial management of an agency. As the scope of the new Financial Management Bill is broader and includes other entities, the more encompassing term of "accountable authority" is used within the Bill. This term is consistent with the Audit Act. Relevant accountable authorities are scheduled within the Bill and the Governor has the power, by order, to amend this Schedule to allow for administrative restructures.

Madam Speaker, consideration has been given to the trend in other jurisdictions towards the preparation of more frequent financial reports. The Government has examined options for increased frequency in financial reporting with the objective of identifying a model that would balance the benefit to users with a manageable impact on resources. The reporting arrangements in the Bill replicate amendments made to the Financial Management and Audit Act by establishing a reporting model that incorporates a September Quarterly Report, a Revised Estimates Report, a December Quarterly Report and a March Quarterly Report. Arrangements for the production of the Treasurer's Annual Financial Report and the Preliminary Outcomes Report also remain in place under this Bill.

Madam Speaker, while accountable authorities currently have no specific powers to borrow money on behalf of the Crown, there are no limiting provisions under the existing legislation.

The Financial Management Bill establishes the Treasurer's powers and obligations in relation to borrowing, guarantees and indemnities on behalf of the Crown.

The Bill also suspends the financial management provisions contained in the enabling Act of an Agency, during the period that the Agency is subject to the Financial Management Bill.

Madam Speaker, one of the primary functions of an accountable authority is to provide various reports to stakeholders on the financial and non-financial performance of the Agency for which

they are responsible. The Financial Management Bill prescribes the financial reports to be produced and requires that reports prepared by accountable authorities are to contain such information as may be required by the Treasurer's Instructions.

This is the same as the existing reporting requirements under the Financial Management and Audit Act.

Madam Speaker, there are currently no provisions in Tasmania's legislation directed at ensuring that appropriate final financial reports are prepared in the event of a government entity being abolished.

Under the Financial Management Bill, if an Agency is abolished, the Treasurer will appoint a reporting officer to prepare and submit financial reports in accordance with the Bill.

The Bill provides that the reporting officer is entitled to reasonable assistance and facilities to undertake the preparation of a final financial report.

Madam Speaker, due to the discretionary nature of ex gratia payments, the Bill establishes legislated provisions for the authorisation and making of such payments. This includes a requirement for the appropriate authorisation of ex gratia payments and provisions for the recovery of payments in the event that any conditions of payment are breached. These provisions are in line with legislation in a number of other jurisdictions.

Madam Speaker, where authority for an appropriation lapses at the end of a year, the current legislation allows the Treasurer to extend approval to spend into the first three months (or up to 12 months) of the following financial year.

The Financial Management Bill does not retain the existing carry forward arrangements. Where an appropriation amount remains unspent, the Treasurer may determine that an amount that does not exceed five per cent of the Agency's appropriation may be issued and applied from the Public Account in the following financial year. The Treasurer's determination will specify the purpose for which the amount is to be issued and applied. Subject to the Treasurer's approval, the unspent amount will be returned to the Public Account in the current year and will be automatically appropriated in the following year.

Madam Speaker, for proper and efficient administration, it is necessary from time to time that the powers of financial responsibility are able to be delegated to responsible officers.

The Bill provides authority for the delegation, by an accountable authority, of financial management responsibilities. Any delegation power contained within an enabling Act of a Statutory Authority will remain unchanged.

Madam Speaker, currently, the Treasurer may issue Treasurer's Instructions with respect to the principles, practices and procedures to be observed in the financial management of all agencies. All Australian jurisdictions utilise a similar process for providing instruction or guidance to assist agencies in respect of financial management principles, processes and practices.

Where required, Treasurer's Instructions will be issued under the Financial Management Bill to expand on the principles contained in the legislation by providing additional instruction and guidance.

Inclusion of specific accountable authority responsibilities and process requirements in the Treasurer's Instructions will promote greater speed and flexibility in responding to changes in the financial management environment, than if those responsibilities and process requirements were included in the Bill.

Madam Speaker, stakeholders were consulted widely prior to the drafting of the Bill and subsequently through to finalisation of the Bill. Affected stakeholders, including all General Government Sector entities as well as other Australian jurisdictions, CPA Australia, the Institute of Chartered Accountants, the Australian Accounting Standards Board and the Australasian Council of Auditors-General, were provided with a draft of the Bill and their comments were sought. The Auditor-General and the Public Accounts Committee have also been consulted and both have indicated support for the Bill.

Madam Speaker, the Financial Management Bill addresses a number of key areas in relation to financial management in Tasmania. It modernises the Public Account structure and governance arrangements as well as Budget management and financial reporting.

The Bill is aimed at ensuring higher levels of accountability and transparency for the Tasmanian Government, and establishes a contemporary financial governance relationship between Tasmania's Parliament, the Executive Government and public sector entities

This Bill complements the *Charter of Budget Responsibility Act*, the *Audit Act* and the *Financial Management and Audit Amendment Act 2012*.

I commend the Bill to the House.