FINANCIAL LEGISLATION AMENDMENT BILL 2020

Introduction and First Reading

Bill introduced, on motion by **Mr B.S. Wyatt**, and read a first time.

Explanatory memorandum presented by the Treasurer.

Second Reading

MR B.S. WYATT (Victoria Park — Treasurer) [3.28 pm]: I move —

> That the bill be now read a second time.

The Financial Legislation Amendment Bill 2020 arises from the recommendations of two statutory reviews of the Financial Management Act 2006 undertaken in 2012 and 2017 in accordance with section 85 of the FMA. The recommendations from the 2012 review, although tabled in Parliament in 2015, were not progressed by the former government. The amendments proposed in the bill will enable key reforms that contribute to a more effective and robust financial management framework, continuing this government's strong focus on sound financial management and accountability. In broad terms, the amendments in the bill fall into two themes: improving governance and accountability and improving efficiency and effectiveness. Importantly, the proposed amendments also address the findings and recommendations of recent reviews, including the Service Priority Review and the Special Inquiry into Government Programs and Projects. While the majority of the amendments are to the Financial Management Act, a small number of amendments are also proposed for the Loan Act 2017 and the Government Financial Responsibility Act 2000.

Through improving governance and accountability, the bill strengthens budget management practice by explicitly requiring an agency's accountable authority to operate within its approved expense limit as specified in the agency's resource agreement. Embedding this requirement in the FMA will enhance fiscal responsibility and accountability and is crucial in ensuring that key performance measures are meaningful and observed. The bill also requires all agencies to formally notify their minister when they may be experiencing financial difficulty. The responsible minister is then required to confer with the Treasurer on a course of action to enable the agency to meet its financial obligation when it is due. Currently, this requirement is included only in a limited number of statutory authorities' enabling legislation, primarily those with a commercial focus.

While the FMA provides a strong framework of control over the authorisation and payment of money, it currently lacks an explicit constraint on agencies entering into an arrangement that effectively commits the state to a financial obligation, thereby potentially pre-empting the government's discretion in the matter. To strengthen governance, the bill will require accountable authorities to ensure that agencies comply with state government policies on financial management. Significantly, agencies will be required to have policies and procedures on how officers of an agency may exercise the authority to enter into a financial obligation on behalf of the agency or the state. Furthermore, sound budgetary control is reinforced through the introduction of a legislative requirement for agencies to establish a comprehensive framework of delegations and authorisations, including maintaining proper records and documentation. This is essential to enforcing stronger financial accountability controls across the public sector, and complements recently introduced reforms that reinforce the independence of agencies' internal audit function and the segregation of duties in the authorisation of payments.

The bill also introduces amendments that enhance the efficiency and effectiveness of public sector financial management. New and supplementary expenditures that have been incurred during the course of the year are currently required to be provided for in an appropriation act in the next or later financial year in accordance with section 27 of the FMA. However, in recent years many of these supplementary appropriation bills have banked up and have not been approved by Parliament by virtue of more urgent and competing priorities. Therefore, this bill proposes to deal with these expenditures as a standing appropriation and to discharge accountability to Parliament by reporting these expenditures in the Annual Report on State Finances. Under the Government Financial Responsibility Act 2000, the Annual Report on State Finances must be tabled in Parliament within 90 days of the end of the previous financial year.

The bill proposes amendments to the automatic supply of moneys in an election year when the budget is often handed down at a later date. If supply has not been granted by Parliament at the beginning of a financial year, the bill's amendments will permit the Treasurer to charge to the consolidated account up to 35 per cent, up from 20 per cent currently, of the total amount appropriated in the previous year to meet payments for up to four months, which is up from two months currently, of the budget year. These amendments will allow adequate time for Parliament to examine the state's finances in an election year and to fund the core activities of government without resorting to a supply act for supply beyond the first two months of the current year.

The bill also provides a solution for the unintended build-up of agency holding account balances that comprise non-cash components of an agency's appropriation, such as depreciation and increases in leave liabilities. It was intended that over time, the holding account would fund relevant agency commitments. For example, holding account

balances built up through depreciation would fund like-for-like asset replacements. However, these balances, which impact the balance sheet, have been growing unabated for reasons including, for example, the non-replacement of assets due to changing technology, other funding options for capital and the overestimation of depreciation expenses. The proposed amendments will resolve this issue by permitting the Treasurer to direct all or part of agencies' non-cash balances standing to the credit of the holding account to the consolidated account where those balances have built up and are not likely to be utilised.

The bill also addresses an existing anomaly in the Loan Act 2017, which does not allow for the temporary repayment and redraw of borrowings without impacting the total authorised borrowing limit. This means that short-term cash surpluses in the public bank account have generally been applied to investments rather than debt repayment, which is not optimal given that interest earned on investments is currently less than the interest paid on borrowings. Proposed amendments to the Loan Act 2017 will resolve this legislative deficiency so that the temporary repayment and redraw of borrowings will not impact the authorised limit and allow better cash flow and liquidity management practices.

As part of this government's commitment to reducing internal red tape and ensuring that agency effort is not diverted to compliance with overly prescriptive or burdensome processes, the Governor's role in the approval of write-offs of public property and revenue and other debts due to a statutory authority or the state, as well as act-of-grace payments, has been replaced with the Treasurer. While this will reduce the administrative burden on the Governor, it will not diminish accountability as agencies will be required not only to maintain registers for write-offs and act-of-grace payments, but also disclose this information in their annual reports under the Treasurer's Instructions. The overarching objective of the proposed recommendations is to "enable the public sector to do its job better", consistent with the Service Priority Review. I note that these amendments are consistent with the recommendations made by the Joint Standing Committee on Audit.

The bill includes amendments to reduce the financial reporting compliance burden on agencies by allowing the Treasurer to exempt agencies from reporting key performance indicators in their annual reports when there is adequate justification. Key performance indicators are a significant component of the Western Australian outcome-based management framework but compliance does not always mean responsible financial management, particularly when KPIs are not meaningful in helping to assess an agency's performance. Reviews such as the 2009 Economic Audit Committee report recommended modifying the existing performance reporting regime to avoid key performance indicators for policy, planning and research functions, recognising that the value of these functions cannot be effectively assessed in this manner.

Other minor amendments to the FMA in the bill include providing clarity to agencies with regard to the requirements of resource agreements and the operation and approval process of the annual estimates; broadening the definition of "relevant commitment" to provide the government greater flexibility to respond to changing circumstances; and extending the statutory periodic review of the FMA from five to 10 years, reflecting the significant workload in undertaking the review. I note that this amendment will not preclude any other legislative amendment to be made in the interim period.

Western Australia already has a good financial management framework, but we can, and should, seek to continually improve it. The Financial Legislation Amendment Bill 2020 does this and builds on the measures announced by the McGowan government in November last year to strengthen the accountability and transparency of financial management across the public sector.

I commend this bill to the house.

Debate adjourned, on motion by **Mr A. Krsticevic**.