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Assistant Secretary
Commonwealth Financial Accountability Review
Department of Finance and Deregulation
John Gorton Building, King Edward Terrace
PARKES ACT 2600

SHARPENING THE FOCUS: A framework for improving Commonwealth performance

NFSA response to position paper

The National Film and Sound Archive of Australia (NFSA) is pleased to make a submission to the *Sharpening the Focus* position paper. The NFSA fundamentally supports initiatives which will serve to reduce red tape, optimise efficiency and increase productivity in the public sector.

We believe that the position paper provides many forward-thinking ideas and there is much merit in seeking to reduce the differences between CAC and FMA entities. Among the proposals canvassed which go to the heart of effectiveness of government, moving back to more structured evaluation of programs appears appropriate and would complement the existing audit program.

However, the implementation of any reforms to arise from the position paper will be challenging for a number of reasons. We believe it is imperative that anomalies and unintended consequences which run counter to the objectives of *Sharpening the Focus* need to be identified early and taken into account well before wholesale implementation.

The range of entities that fall within the scope of the paper is large and diverse. A one size fits all approach, as with many things, is perilous. The proposed reform to

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create a single performance framework and legislate for risk management will be difficult to implement, particularly in smaller, specialist agencies such as the National Film and Sound Archive (NFSA) and some of the other cultural entities.

Of particular concern to the NFSA is the proposal to remove the ability for agencies to manage our own funding and banking arrangements. In an environment where cultural agencies are expected to source supplementary funding, usually from community support, philanthropic donations and sponsorship, it is important that benefactors can have assurance that their donations/sponsorship are benefitting the institution directly, rather than being placed in consolidated revenue. The perception that donations may end up in a large government money pool, rather than for the entity (and often for the specific project) for which it is intended, could be a major deterrent to donation and sponsorship.

Of further concern is that the report does not provide any worked examples of how funding and financial arrangements will change. It is therefore extremely difficult to comment on the proposed changes from a financial management perspective.

Our specific comments against the proposed reforms are set out below. This submission has the endorsement of the Board of the NFSA.

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Chair
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Section 2: Government as a whole

Proposed reform: The key legislative proposal of this paper is that a single Act that sets out the fundamental elements of the financial framework should replace the current model that distinguishes between FMA and CAC Act bodies.

The NFSA is generally supportive of one Act and the apparent desire to provide more flexibility to FMA entities.

Proposed reform: To enable more connected portfolio arrangements, legislation should articulate the role of departmental secretaries in advising responsible ministers on the performance of portfolio bodies.

We have some reservations regarding this proposed reform. From reading the report the reform is two-fold:

1. Legislative changes would allow for a portfolio board to be established – the NFSA can see some benefits in establishing such a Board

2. Movement of operational issues (HR, accounts payable and receivable, internal audit, etc) to whole-of-portfolio. It seems to also suggest the possibility of having a portfolio CFO and audit committees. It has yet to be demonstrated how this will translate to efficiencies. It is our experience that core corporate services are managed effectively in small agencies and that moving to more shared services arrangements would actually increase costs and resource requirements across the Government. There are a significant number of specialist transaction processing arrangements that have to be maintained no matter whether they are handled individuals by agencies or through a shared services arrangement.

Section 3: Independence

Proposed reform: The financial framework ought not, in itself, determine the level of independence and organisation exercises

The concept of independence is important particularly to agencies which depend in part on the support of individuals, corporates and philanthropists who support and donate to the NFSA. A lack of independence, or even the perception of it, can deter much-needed non-government funds to cultural organisations like ours.

Section 4: Accountable performance

An overarching performance management framework

While the NFSA generally supports this idea, implementing it within a 3-year political cycle would be difficult.

A number of constraints present themselves:

1. Who would be responsible for creating the framework?

2. Which department would be responsible for amending and updating the framework when there is a change of government, or a change of priorities?

Additionally, cultural institutions which have a unique public value proposition among government agencies, have worked extremely diligently to create a cultural performance reporting framework. This was only created during 2012 and much resource has been devoted to its development. We would be extremely disappointed if this were removed or significantly changed and this resource and effort wasted.

Resource management cycle

The only comment we would make about this is that it is important to note the importance of flexibility in any resource management arrangements, particularly thresholds for smaller agencies.

Closer link between budgeting and financial management

In the case of the NFSA and other statutory authorities, the current arrangements do appropriately reflect the roles and responsibilities of CEO and directors. Particularly where additional legislation already exists such as the NFSA Act 2008. From a CAC agency perspective, it is unclear as to what the purpose of this recommendation is.

Performance information

Proposed reform: Given its importance, explicit obligations should be placed on chief executives and directors in legislation for the quality and reliability of performance information.

The NFSA supports this direction. However, who will determine the quality and reliability of performance information? Additionally, will there be any compensation for re-developing existing performance information?

On a general note, the work currently being undertaken between the cultural institutions to develop an overarching set of performance information has in fact led to more key performance indicators, not fewer.

Benchmarking

The NFSA believes that benchmarking is very difficult to implement – even between cultural institutions with similar objectives. Benchmarking would be limited in scope – as it would be difficult to identify metrics that are common across agencies for anything other than corporate/financial performance. The NFSA does not see any realistic and ongoing benefit to benchmarking across the diverse range of Government activities. The NFSA has already been involved in benchmarking activities with no tangible benefit.

Evaluation

Proposed reform: Evaluation should be more systematic and better linked to the budget process

The NFSA agrees that an increased focus on evaluation would be beneficial for agencies and the government as a whole. However, the proposal comes with resource implications.

The Department of Finance could play a stronger role in fostering a culture that values more systematic evaluation. However, the NFSA questions whether DOFD is the appropriate department for fostering cultural change. It would perhaps sit more appropriately with the Australian Public Service Commission.

Clear line of sight

Proposed reform: There should be a clear line of sight between appropriations, Portfolio Budget Statements and the information contained in annual reports to allow comparison of planned and actual performance

The NFSA supports an increased focus on corporate planning as there is currently a disconnect between PBS and corporate plans.

However, the underlying financial processes would need to be made more flexible. For example, there are currently difficulties with the CBMS and systems to create the PBS. Additionally, when agencies request changes to CBMS/PBS entries to align internal budgets to PBS figures more often than not the Department of Finance is not able to process the changes due to the 'locked' nature of the whole-of-government systems.

Access to information

The NFSA agrees in principle, however there needs to be a recognition that making more information available via the internet will have resourcing implications for government agencies.

Additionally, simplified reporting will still of course have to comply with ANAO and Accounting Standard requirements. Stakeholders are familiar with NFSA reporting arrangements and changes, unless accompanied by adequate explanation and rationale, have the potential to confuse.

Section 5: Engaging with risk

Recognising risk management in legislation

Proposed reform: Chief executives and directors, as well as decision-makers at different levels, should be made explicitly accountable in legislation for oversight and management of risk

The NFSA generally supports strong accountability on risk management, but submits there are many more effective ways to promote and encourage strong risk management cultures. There is no question risk management is already a well-established governance imperative. (That is not to say all risks are well managed). Specific legislation may heighten the priority given to risk management. Transparency of information, including the checks provided by the Parliament (eg. Senate Estimates Hearings), inclusion on board charters and chief executive position descriptions, audit and risk committee charters, ensuring the appointment of competent directors and executives and the use of performance management tools which include specific accountabilities on risk are but some of the available tools. Legislation may send a message, but it will not necessarily enhance a risk management culture.

There is already an international standard on risk management which is based fairly closely on the Australian standard (ISO 31000). The report recommends adopting the ASX's Corporate Governance Principles and proposed reforms as those are appropriate for public sector entities, we would argue that the international standard is a better guide. ASX guidelines are for companies, usually profit driven, without the same reporting requirements as the entities under the scope of *Sharpening the Focus*.

It is important to note that smaller agencies work with limited resources around the risk management space and that a regime that is not fit for the size and nature of the organisation can have major adverse impacts.

Proposed reform: an overarching risk management framework for the Commonwealth should be developed to set the context for entities' risk management practices

The NFSA does not believe that this is even possible given the diverse scope of activities undertaken by the Commonwealth, other than at such a high level as to risk becoming meaningless. The notion of what could be considered a 'material' risk varies so widely across portfolios that it would be useless in practicality. A material risk for the NFSA (say $1 million) would be an insignificant risk for large agencies such as the Department of Defence.

The NFSA would recommend as a first step developing a portfolio risk framework, however this would still be difficult to implement.

A positive risk culture

The NFSA agrees, but cultural change is difficult to achieve through legislation. ComCover risk management awards would suggest that many Government agencies already have appropriate risk cultures. There appears to be limited evidence to suggest why the current arrangement needs to be changed.

Section 6: Earned autonomy

Proposed reform: Instead of a one-size-fits-all approach to regulation, an earned autonomy model should be implemented

The NFSA supports this proposed reform.

Risk-based regulatory framework

The NFSA generally agrees with the proposals. However, if the framework were to be based on existing measures, such as ComCover ratings, there needs to be a recognition of the fact that it is a little easier for larger agencies to receive better ratings in the ComCover surveys as they have the resourcing to support more thorough risk/fraud control frameworks.

Finance as the Commonwealth CFO

The Department of Finance is the Commonwealth CFO. However, the Department of Finance cannot be expected to possess the understanding of the unique nature of each agency and should not be directly involved in the day-to-day financial management of entities, particularly ones that have earned independence. Such arrangements just create an additional layer of red tape, with many smaller entities already reporting to CEO, managing Boards and Ministers. The Department of Finance should control the overarching reporting, principles and frameworks.

Section 7: Joining up

Proposed reform: Legislation should make it clear that the responsibilities of public officials can extend beyond their individual organisation to include wider government objectives.

The NFSA agrees with the suggestions. However, the wider government objectives need to be fully transparent to all agencies.

Duel and multi-party accountability

Proposed reform: Legislation should better accommodate the concepts of collective responsibility and multiple accountabilities.

These points are already reflected in CAC Act. The NFSA agrees with the suggestion.

Joint ventures

Proposed reform: Consideration should be given to expanding the menu of options available for structuring entities to facilitate increased collaboration and collective responsibility.

It is unclear as to what the Department of Finance is advocating here. More information is required before a comment can be made.

Appropriations

Proposed reform: The framework should provide greater flexibility for moving appropriated money between entities involved in joint activities.

The NFSA agrees, however this may be difficult to administer.

Grants

Proposed reform: The burden on grant applicants should be reduced

The NFSA agrees.

Partnering

No comment.

Section 8: Capability and culture

A public service that learns

The NFSA supports the basic principles espoused in this section.

Financial management capability

Proposed reform: Finance should enhance the training it provides and improve the quality of its guidance material.

The NFSA agrees. However, there are cost implications to increased training (especially the accreditation of delegates) which need to be addressed. Additionally it is important the staff within the Department of Finance take the required time to understand the operations of entities before directing change.

Role of chief financial officers

The NFSA agrees that CFO's must be appropriately skilled and qualified.

Section 9: Public money is public money

Proposed reform: The concept of public money should be clarified. Generic rules should apply to all public expenditure and there should be no perceived advantage or disadvantage in terms of public accountability arising from the different classifications of entities

Money held on own account

Proposed reform: Consideration should be given to centralising the holding of public money, but allowing entities that have a clear business need to hold money on their own account to do so, taking into account constitutional and operational issues

This is the section of most interest to the NFSA. We would argue strongly that we maintain the use of our own bank account, especially any funds which are brought in through sponsorship or philanthropy. The NFSA believes that philanthropic donations would be even harder to attract if the donor believed the funds would go into consolidated revenue. Smaller entities rely on their perceived independence and their unique value proposition to attract and retain sponsorship. Any external funding must be seen as being directly managed and used by the cultural entity receiving the funding.

Philanthropic trusts usually have specific objectives to which trust funds can be applied. Likewise, bequests are often very specific. Trustees and executors may have serious difficulty disbursing funds which go to a general fund. This would seem to pose a major difficulty to cultural agencies who rely in part on funding from gifts and bequests to achieve their objectives and defray their dependence on government.

CAC agencies require the ability to manage their cash directly and immediately, without having to seek approval or additional processing requirements.

CAC agencies rely on interest received to supplement Government funding. There is no evidence that a whole-of-Government approach would create additional interest returns.

There will be practical difficulties, particularly in the short to medium term, if the NFSA is not able to manage its own funding and banking arrangements. Suppliers will have to be notified, and given our experience with the demerger of Australian

Film Commission (AFC) and the integration of Film Australia Library (FAL) bank details are difficult to communicate and change.

Any centralisation process would also create significant resource pressures for the Department of Finance along with the need for significant understanding and communication between AAU's, budget areas, treasury functions and entity staff. While improving, such communication channels are not currently effective.

Section 10: Simplification

Compliance requirements

Proposed reform: Compliance requirements should focus on areas of high risk, without prescribing procedures that are better addressed through internal controls

The NFSA agrees. Compliance costs have been increasing, without any demonstrable benefit to the agency.

Proposed reform: Prescriptive requirement such as FMA regulation 9 should be removed from the framework

While not relevant to the NFSA, the NFSA agrees.

Reporting requirements

Proposed reform: Reporting requirements should be periodically reviewed to ensure they continue to meet their intended objectives efficiently and effectively.

The NFSA agrees.

Tiered or differential reporting

Proposed reform: Tiered financial reporting arrangements should be established that are appropriately calibrated to relevant entities or programs

The NFSA agrees.

Integrated reporting

The NFSA agrees – as long as this does not create additional reporting burdens for their own sake.

Flexibility and longer term planning

Proposed reform: Consideration should be given to allowing entities to spread cash across years in order to effectively run their operations, without detracting from overall budget and expenditure control.

The NFSA agrees, however this is extremely difficult to comment on without worked examples.

Annual appropriations

Proposed reform: To simplify the whole-of-government management of appropriations, the framework should be amended so annual appropriations lapse automatically after a suitable period of time

The NFSA is unsure of the benefit for lapsing appropriations. This proposed reform also appears to contradict the proposed reform allowing entities to spread cash across years.

Proposed reform: Moving to cash appropriations, based on the net annual cash requirement of an entity as shown in its cash flow statement, would further simplify the framework.

Without a worked example this area is difficult to comment on. Current appropriations contain amounts for depreciation and leave on-costs.

Additionally, what thresholds would be in place for minor adjustments to funding? Accrual accounting is well accepted by the external public and moving to cash appropriations seems to be an unusual step.

The NFSA supports being appropriated directly, rather than through a portfolio Department.

Decoupling outcomes from annual appropriations

Proposed reform: The preferred position in this paper is to appropriate by entity and/or key priority

The NFSA agrees.

Special appropriations

Proposed reform: The role of the Finance Minister in approving, or creating, special appropriations should be clarified to better recognise the Minister's custodianship role in relation to government finances

The NFSA agrees.

Creating and abolishing bodies

Proposed reform: The capacity to establish and abolish statutory corporations through a single piece of legislation should be examined.

The NFSA agrees – however it will be a tough piece of legislation to draft. The whole Machinery of Government change process needs to be examined in detail.