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Financial Arrangements and PAFA Approvals

At a glance

- The GSF Act modernises the existing PAFA approval process
- Flexible delegation powers are promoted via the GSF Act
- Transitional arrangements enable existing PAFA approvals to remain in force when the new legislation commences for a transitional period.

The Government Sector Finance Act 2018 (GSF Act) replaces the previous *Public Authorities (Financial Arrangements) Act 1987 (PAFA Act)* (which is to be repealed by the cognate Government Sector Finance Legislation (Repeal and Amendment) Act 2018). It will enable modern financial management practices across Government. The GSF Act will give the NSW Government, through the Treasurer, greater flexibility to tailor when and how government entities can enter into borrowings, investments and other financial arrangements. The GSF Act promotes flexible delegation powers and has the potential to increase operational efficiency.

What happens with existing PAFA approvals?

Before the GSF Act became law, the power to enter into financial services required approval under the Public Authorities (Financial Arrangements) Act – called PAFA approvals. Once the GSF Act commences the transitional provisions of the GSF Act mean that the **PAFA approvals** for borrowing, derivatives and investments will continue to be valid until the *earlier* of these following conditions;

- until the arrangement ends,
- the approval is amended or revoked by the Treasurer or,
- 1 December 2021 (3 years from the GSF Act commencement and the consequential repeal of PAFA) - *Agencies will need to apply for new approvals for these arrangements, under the new GSF Act, prior to 1 Dec 2021.*

Joint financing arrangements, joint ventures and associated guarantees, in existence at the commencement of the GSF Act, 1 Dec 2018, will remain in force until the arrangement ends. Any new joint financing arrangements will require approval under the GSF act.



Tip

If you are not sure how the transitional provisions of the GSF Act apply to your arrangements and approvals, contact your NSW Treasury representative or the NSW Treasury legislation team.

The new arrangements (Part 6 in the GSF Act) will apply in respect of new and renewed approvals from 1 December 2018.

Transitional provisions will be located in Schedule 1 to the GSF Act.

What will be the practical effect of the changes?

The introduction of the GSF Act provides an opportunity to modernise the existing PAFA approval process and allows greater flexibility and efficiency. Key practical changes include:

- The Treasurer's approval process for GSF agencies entering into financial arrangements (financial arrangement approval process), will be simplified and standardised.
- The Treasurer will be able to delegate and authorise subdelegation of the function of giving of financial arrangement approvals in accordance with the provisions of the GSF Act.

These changes allow decisions to be made at the appropriate level for improved efficiency. Treasury will

continue to liaise with GSF agencies to ensure that they understand the new financial arrangement approval process in place from 1 December 2018. The Treasurer's directions will include requirements that must be followed when an application for a financial arrangement approval is made.

Does the GSF Act propose any changes to investment powers?

Case study – flexibility in approving credit cards

In today's economy, printed cheques and other payment methods have made way for credit cards as an efficient procurement method for low value and low risk purchases. Nonetheless, the *Public Authorities (Financial Arrangements) Act 1987* requires agencies to obtain the Treasurer's approval before issuing a new credit card to staff. This is because credit cards fall under the definition of "financial accommodation" in that Act, and each incremental card increases the overall credit limit of the agency. Under the GSF Act, the Treasurer is granted the option to delegate this approval power (and others) if desired.

Under the GSF Act, a GSF agency is permitted to enter into an investment (which is a type of 'financial arrangement') only where the investment is authorised and the terms of the authorisation are complied with. In many cases, there will be minimal changes to the ability of a GSF agency to invest because agencies rely on existing powers to perform their current functions.

There will no longer be a delineation between certain 'buckets' of investment powers, as is currently contemplated by an agency's allocation of Part 1-4 powers under the *PAFA Act*. The GSF Act will allow for certain kinds of general investment approvals (for example, the Treasurer's directions may allow all GSF agencies to invest their money within a bank account inside the Treasury Banking System, or as approved by the Treasurer). Investment powers can also be conferred by bespoke approvals authorising GSF agencies to undertake certain kinds of investment.

Need more information?

For more detail refer to the following in the GSF Act:

- Divisions 6.2 and 6.4 - Financial Arrangements

Email the Legislation team at legislation@treasury.nsw.gov.au.