Disclaimer: This is guidance material only and does not replace reading the legislation. For further information refer to the legislation. Please check the website for updates and other information.

Financial Arrangements and PAFA Approvals

At a glance

- The GSF Bill modernises the existing PAFA approval process
- Flexible delegation powers are promoted via the GSF Bill
- Transitional arrangements enable existing PAFA approvals to remain in force when the new legislation commences

The Government Sector Finance Bill 2018 (GSF Bill) replaces the previous *Public Authorities (Financial Arrangements) Act 1987* (*PAFA Act*) (which is to be repealed by the cognate Government Sector Finance Legislation (Repeal and Amendment) Bill 2018). It will enable modern financial management practices across Government. The GSF Bill 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 Bill promotes flexible delegation powers and has the potential to increase operational efficiency.

What happens with existing PAFA approvals?

Many Government agencies have existing approvals in place under the *PAFA Act* that allow them to enter into certain financial transactions and arrangements – these approvals are often referred to as 'PAFA approvals'. Under the GSF Bill, transitional provisions will provide for existing PAFA approvals for borrowings, derivatives and investments to continue until the earlier of the arrangement ending, being amended/revoked by the Treasurer or a period of 3 years from the date that the *PAFA Act* is repealed (1 Dec 2018). Agencies will need to apply for new approvals for these arrangements prior to 1 Dec 2021. Approvals for joint financing and joint venture arrangements will remain in force until the arrangement ends. Any associated guarantees will continue until the relevant financial arrangement ceases.

Tip All PAFA approvals with expiry dates up to and including 30 June 2019 should be renewed before 30 November 2018 under the existing legislation, to ensure that no inadvertent slippage occurs during the transition.

The new arrangements (Part 6 in the GSF Bill) will apply in respect of new and renewed approvals from 1 December 2018. Transitional provisions will be located in Schedule 1 to the GSF Bill.

What will be the practical effect of the changes?

The introduction of the GSF Bill 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), defined in the GSF Bill, will be simplified and standardised.
- The Treasurer will be able to delegate and authorise subdelegation of the giving of financial arrangement approvals in accordance with the provisions of the GSF Bill.

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 Bill 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 Bill, the Treasurer is granted the option to delegate this approval power (and others) if desired.

Under the GSF Bill, 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 Bill 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 Bill:
- Divisions 6.2 and 6.4 - Financial Arrangements

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