



ACT
Government

2015

Government Response

Auditor-General's Report No. 1 of 2015: *DEBT
Management*

Presented by
Andrew Barr MLA
Treasurer

This page is left intentionally blank.

Table of Contents

Introduction	4
Responses to the Auditor-General's Recommendations	5

Introduction

The ACT Government welcomes the Auditor-General's Report No. 1 of 2015: *Debt Management* (the Report).

The performance audit included a detailed analysis of the effectiveness of debt management arrangements in five directorates: Chief Minister, Treasury and Economic Development Directorate (CMTEDD), Community Services Directorate (CSD), Environment and Planning Directorate (EPD), Justice and Community Safety Directorate (JACSD) and Territory and Municipal Services Directorate (TAMSD). It also included a self-assessment of internal governance and control frameworks by a majority of ACT government entities in the General Government Sector and some Public Trading Enterprises.

The Auditor-General has made nine recommendations in the Report aimed at implementing improvements in the collection, monitoring and reporting of debts owed to the ACT Government, particularly by non-ACT Government entities.

The Report is welcome in highlighting these matters and we will put in place a process to work through these issues. However, as the Auditor-General notes, it is a complex issue and a 'one size fits all approach' is not appropriate. There are pros and cons of changing our current approach to debt management and these issues need to be carefully examined.

The Government notes that the Report does not identify a serious problem in debt management in the ACT. In fact the report found that the five directorates subject to detailed audit analysis have overall sound procedural and administrative arrangements for debtor management.

A whole-of-government response has been prepared and provided below to address these recommendations.

Changes in Administrative Arrangements

The audit was undertaken prior to the Administrative Arrangements which commenced on 7 July 2014. One of the main changes to the arrangements on this date was the combining of the Chief Minister and Treasury Directorate, Economic Development Directorate, and Commerce and Works Directorate into the CMTEDD.

Responses to the Auditor-General's Recommendations

RECOMMENDATION 1

Director-General Financial Instructions (Chapter 3)

The Chief Minister, Treasury and Economic Development Directorate (Treasury) should:

- a) periodically review and update the Director-General Financial Instructions; and
- b) make the Director-General Financial Instructions readily available to all ACT Government entities to assist them with drafting their own internal policy and procedural guidance.

a) Noted

Under the Territory's decentralised financial management framework, particularly section 31 of the Financial Management Act 1996 (FMA), a director-general has a high degree of discretion in the management of all financial aspects of their directorate.

Model Director-General Financial Instructions (DGFIs) were issued in 2007 for the purposes of assisting agencies to tailor these to address their specific needs, to assist directors-general to effectively discharge their financial management responsibilities under the FMA. It was never the intention that the Model DGFIs would be continually updated. Model DGFIs on individual topics are issued on an as needs basis, such as a new topic.

Guidance on the general principles of debt management will be developed by CMTEDD to assist directors-general in developing DGFIs specific to their directorate.

b) Noted

It is existing practice to make new DGFIs issued from time to time readily available by placing them on the CMTEDD-Accounting website.

Guidance on the general principles of debt management will be placed on the CMTEDD-Accounting website once finalised.

RECOMMENDATION 2

Oracle – Payment Incentives (Chapter 4)

The Chief Minister, Treasury and Economic Development Directorate (Shared Services Finance) should modify the Oracle financial management information system to facilitate the processing of payment incentives, if technically feasible.

Noted

The Government acknowledges that offering payment incentives could encourage customers to make prompt payments. However, their effectiveness in improving debtor behaviour and their suitability in the context of the variety of debts, legislative or policy constraints and social sensitivities, needs to be explored. Processes must also be justifiable from a number of perspectives including cost, IT capabilities and impact on efficiency, to determine if worth pursuing.

At the current low level of interest rates the Government considers that there are not sufficient incentives for putting in place arrangements allowing payment incentives (in the form of discounts for prompt or early payment) to customers to warrant the cost of implementing the necessary system and procedural changes.

However, the Government will monitor interest rate changes in the future and will consider if the financial benefit (at higher levels of interest) sufficiently justifies the proposed incentive offer. Consideration will include the technical feasibility of a re-configuration whether within the existing system or a possible future upgrade in relation to the Oracle System and any other relevant system from which information associated with debts is transferred into Oracle. An assessment will also be undertaken in relation to the reasonableness of the associated costs.

Certain ACT Government revenue lines impose late payment fees on the customers. At the current low level of interest rates this is considered a greater incentive for customers to make timely payments in comparison to the payment incentive option recommended.

RECOMMENDATION 3

Consideration of Better Practice Initiatives (Chapter 4)

ACT Government entities who manage non-ACT Government debts, and do not have a low risk with respect to the collection of this revenue, should assess their debt management practices against better practice, and modify their practices accordingly.

Agreed

The Government will require agencies to review their debt management practices once the guidance on the general principles of debt management is made available by CMTEDD (refer response to recommendation 1). Agencies will be required to consider the principles outlined in the guidance as well as relevant inter-jurisdictional best practices to determine whether changes are required to their DGFIs.

The potential application of better practice models must be analysed by agencies from a number of perspectives including risk, cost, IT capabilities and impact on efficiency, to determine whether it is worth pursuing. The review will also be influenced by any underlying policy or legislation and social sensitivities.

RECOMMENDATION 4

Monitoring and Reporting (Chapter 4)

The Justice and Community Safety Directorate and the Environment and Sustainable Development Directorate should improve their debt management monitoring and reporting by regularly preparing whole-of-directorate debt management reports.

Noted

The Report notes that both directorates had overall sound procedural and administrative arrangements for debt management.

The use of multiple information systems by the different business units within the Justice and Community Safety Directorate (JACSD) present a number of difficulties for the directorate in producing regular, consolidated whole-of-directorate reports on debt management activities. Although, JACSD considers its existing practice of managing debt by relying on debtors reports produced monthly by Shared Services and periodically by individual business units to be appropriate, JACSD will explore the feasibility of a whole-of-directorate debtors report.

The Environment and Planning Directorate (EPD) relies on the monthly report from Shared Services Finance for the ongoing monitoring of its debt. Although, it considers its existing strategies associated with debt management and alternative mechanisms used in its debt recovery processes (for instance the use of external debt collection agencies) to be satisfactory, EPD will undertake additional analysis and reporting of its debt management activities.

RECOMMENDATION 5

Financial Reporting of non-ACT Government Debts (Chapter 4)

The Chief Minister, Treasury and Economic Development Directorate (Shared Services Finance) should enhance their debt management reporting to ACT Government entities by separately reporting on debts owed by non-ACT Government entities.

Agreed-in-principle

Under the existing arrangements Shared Services report on a monthly basis to a collaborative forum between Shared Services and directorates, on debt management.

Shared Services will explore the technical feasibility of providing enhanced debt management reporting from within the Government's financial management systems to include relevant information, whether within the existing Oracle system or a possible future upgrade.

RECOMMENDATION 6

Performance Indicators for non-ACT Government Debts (Chapter 4)

ACT Government entities that manage non-ACT Government debts, and do not have a low risk with respect to the collection of this revenue, should develop performance indicators for debts owed to the Territory by non-ACT Government entities.

Noted

In accordance with the 'Guide to the Performance Management Framework', performance measures are aimed at assessing the agency's effectiveness and efficiency in delivering its key outputs. Agencies are encouraged to select a small number of key indicators which would be most useful to stakeholders. As a result, accountability indicators for debt management should only be set by agencies where debt management is a key function.

Accountability indicators are included in agency budget statements and reported against in the Statement of Performance, in accordance with the FMA.

The collection of taxes, fees and fines and managing associated debts is the key activity of the ACT Revenue Office. Therefore, having accountability indicators aimed at assessing the performance of the ACT Revenue Office in achieving its key deliverable is required to meet the expectations of the Legislative Assembly and the community. The ACT Revenue Office already has debt management related accountability indicators which are included in CMTEDD's Statement of Performance.

The development of internal benchmarks (not included in agency budget statements and the Statement of Performance) may be a better performance management alternative where agencies manage material levels of debt but it is not their key activity.

RECOMMENDATION 7

Documentation of credit notes (Chapter 4)

The Territory and Municipal Services Directorate (Capital Linen Services) should appropriately document credit note approvals. The Directorate's standard 'request for credit note' may be appropriate for use.

Agreed

The Territory and Municipal Services Directorate has put in place processes to ensure that credit note approvals are appropriately documented within Capital Linen Services.

RECOMMENDATION 8

Transfer of debt recovery responsibility from Shared Services Finance to ACT Government entities during the debt recovery process (Chapter 5)

The Chief Minister, Treasury and Economic Development Directorate (Shared Services Finance) should assess the effectiveness and efficiency of arrangements whereby Shared Services Finance transfers to ACT Government responsibility for managing the recovery of debts overdue by 60 days or more and provide guidance on any needed changes.

Noted

The ACT Government is currently reviewing existing debt management processes with the aim of identifying options for improved arrangements in targeted areas. A discussion paper is being developed by Shared Services for the purposes of commencing dialogue on this matter with the directorates. The aim is to achieve consistent, efficient, effective and economical processes for certain revenue items. Any changes to Shared Services' procedures will consider a number of factors including specific legislation, policies, social sensitivities, commercial considerations, variability of debts and associated specialised knowledge within agencies.

For any proposal to transfer additional debt management responsibilities to Shared Services the Government will also consider the responsibilities of directors-general for the effective and efficient financial management of their directorate under the Territory's decentralised financial management framework. Responsibilities associated with the recovery and management of debts is closely linked with the how the debt is raised in the first place and it may not be appropriate to separate the two responsibilities.

RECOMMENDATION 9

Whole-of-government review of debt management (Chapter 5)

The Chief Minister, Treasury and Economic Development Directorate should undertake a strategic whole-of-government review of debt management arrangements aimed at more effective and efficient debt management across ACT Government entities. The review should, amongst other things, identify whether there are opportunities to:

- a) consolidate ACT Government entities' administrative roles and responsibilities for debt management;
- b) enhance coordination and/or cooperation in relation to debt collection and recovery practices across ACT Government entities; and
- c) identify and develop a mechanism for the sharing of information on better practice initiatives, especially those developed and implemented by ACT Government entities.

Noted

The Auditor-General acknowledges in its Report that the ACT Government entities selected for detailed analysis, had overall sound procedural and administrative arrangements for debt management.

The existing debt management arrangements within ACT Government agencies are considered reasonable and in the Government's view do not justify a strategic whole-of-government review considering the extensive work of the Auditor-General in this audit.

Agency specific legislation, policies, social sensitivities and ICT systems, all combine to make it problematic to review debtor management practices across the Territory in order to recommend meaningful and cost efficient improvements for broad application by agencies.

Forums already exist for agencies to share financial practices and learnings, such as the Collaborative Forum and the CFO Forum.

However, as mentioned under the response to recommendation 8, the ACT Government is currently reviewing options in targeted areas. A discussion paper is being developed by Shared Services for the purposes of commencing dialogue on this matter with the directorates.