Commitment of relevant money

Resource Management Guide No. 400

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Audience

The following guide is relevant to officials of non-corporate Commonwealth entities (NCEs) and corporate Commonwealth entities (CCEs) who:

- have been delegated the power or authorised by their accountable authority to approve commitments of relevant money or enter into, vary and administer arrangements on behalf of the Commonwealth or a Commonwealth entity, and
- are responsible for providing advice on the use of these powers to other officials or ministers.

This guide replaces RMG 400: Approving commitments of relevant money (July 2014).

Non-corporate Commonwealth entities (NCEs)

A. Committing relevant money

1. The Commonwealth commits and spends relevant money to achieve the purposes and objectives of the Australian Government.

2. Relevant money is money standing to the credit of any bank account of the Commonwealth (or CCE), or money that is held by the Commonwealth (or CCE).

3. A commitment of relevant money is an activity that creates an obligation to pay relevant money. A common way to commit relevant money is by entering into an arrangement. This includes an obligation that is contingent upon certain events occurring (for example, indemnities, guarantees and warranties).

What is an arrangement?

4. An arrangement includes a contract, agreement, deed or understanding. An arrangement also includes any other instrument between parties that creates rights and obligations.

5. An accountable authority of a NCE can enter into, vary and administer particular arrangements where authorised by legislation, including under section 23 of the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and section 32B of the Financial Framework (Supplementary Powers) Act 1997 (FF(SP) Act).

6. The need to enter into an arrangement can arise in a variety of circumstances, for example where an entity is:
   - procuring goods or services to support its operations (such as, stationery, furnishings, information technology (ICT), consultants, electricity and other utilities, rent, travel, vehicles, subscriptions, contracts, attending conferences, legal, research and other professional services) for itself, or
   - cooperating with third parties, to achieve purposes of the entity.
7. The purpose or outcome being sought by an entity will influence the type of arrangement that it enters into and the legislation, rules and policies that will apply (in addition to the PGPA Act), for example:

- the *Commonwealth Procurement Rules* (CPRs) and associated procurement policies will apply to procurement arrangements
- the *Commonwealth Grants Rules and Guidance* (CGRGs) will apply to grants arrangements.

B. Legislative authority to enter into arrangements involving the commitment of relevant money

8. The accountable authority of a NCE must generally have legislative authority to enter into arrangements involving the commitment of relevant money. For NCEs, this legislative authority can come from:

- for arrangements relating to the ordinary activities of government, *section 23* of the PGPA Act
- for arrangements covered by another legislative scheme, that specific legislation
- for arrangements not authorised by either of the above and made for the purposes of an arrangement, grant or program listed in the *Financial Framework (Supplementary Powers) Regulations 1997*, section 32B of the FF(SP) Act (e.g. this legislation supports the entry of arrangements for the purposes of many grants programs).

9. For more on the different ways officials can commit relevant money, see *RMG 411: Grants, procurements and other financial arrangements* (July 2014).

When to use section 23 of the PGPA Act?

10. *Section 23* of the PGPA Act provides authority for the Commonwealth to commit relevant money by entering into and varying arrangements for the ordinary activities of government. The PGPA Act provides an accountable authority with the power to:

- enter into, vary and administer arrangements relating to the affairs of their entity (*subsection 23(1)*) and
- approve commitments of relevant money for which the accountable authority is responsible (*subsection 23(3)*).

11. The ordinary activities of government can include:

- procuring goods or services for the purposes of running an entity (e.g. paying for stationery, furnishings, information technology, electricity and other utilities, rent, travel, vehicles, subscriptions or attending conferences)
- paying contractors (e.g. engaging a consultant to conduct research for the entity)
- paying for legal, accounting and other professional services.
12. Typically, the ordinary activities of government are funded out of an entity’s annual departmental appropriation.

Is a separate approval to commit relevant money required before you can enter into an arrangement under section 23 of the PGPA Act?

13. The PGPA Act does not require a separate approval to commit relevant money to be given (under subsection 23(3)) as a precondition to an arrangement being entered into under subsection 23(1).

14. Under the framework a delegate may enter into the arrangement under subsection 23(1) without seeking any prior approval. In these circumstances:

- the delegate will, as an implicit part of entering into the arrangement, approve any commitment of relevant money resulting from the entry of the arrangement
- the delegate will need to record their approval in writing as soon as practicable, in accordance with section 18 of the PGPA Rule.

15. A written record is required because section 18 of the PGPA Rule requires approval for a commitment of relevant money to be recorded (in writing) in all cases, and not just when separate approval is required under subsection 23(3) of the PGPA Act.

16. In managing their entity, an accountable authority can decide to implement a two step process by prescribing this requirement in the entity’s internal controls (e.g. in accountable authority instructions or in the delegation instrument itself). In doing so, they may clarify when an approval for a commitment of relevant money will be required (under subsection 23(3)) separately to an arrangement being entered into under subsection 23(1). An accountable authority may decide that a two-step process is appropriate in certain circumstances. For example, they may decide that for an arrangement involving expenditure over a particular dollar limit:

- an official who has been delegated power under subsection 23(3) must approve a commitment of relevant money (step 1)
- once the relevant approval has been granted, an official who has been delegated power under subsection 23(1) can enter into the arrangement (step 2).

17. Under this scenario, the official approving the commitment under step 1 would need to record their approval in writing as soon as practicable after giving it (section 18 of the PGPA Rule).

When is an overarching approval to commit relevant money appropriate?

18. Accountable authority delegations or instructions can permit an official to provide an ‘overarching approval’ for a group or class of purchases in particular circumstances. In deciding whether an overarching approval should be issued, the accountable authority and delegate will need to consider:

- the nature of the arrangements, the extent of the entity’s internal controls, the environment the entity operates in and the risk appetite of the delegate and the entity, for example:
o an overarching approval may be appropriate where the need for the goods or services is routine

o the volume and price is known and the supplier is known, such as in the case of stationery supplies

- imposing limitations on an overarching approval, for example:
  
o a time limit to help ensure that conditions at the time the approval was granted are still in place when purchases are made
  
o a dollar limit, e.g. purchases over a certain amount will not be covered by the approval and will require additional approval.

19. Additional risks will exist for commitments that are non-routine. Directions issued by an accountable authority can indicate the circumstance when an overarching approval is permitted to be granted.

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**Case study 1**

The CFO of Small Entity wishes to provide an overarching approval for the commitment of relevant money for stationery for the financial year. Based on expenses for previous financial years, the CFO can reasonably estimate the annual expense for stationery ($100,000). Small Entity utilises a panel of stationery providers established by its portfolio department. The terms and conditions under the panel arrangement were separately approved (i.e. assessed as being a proper use of relevant money) when the panel was set up.

The CFO of Small Entity provides her approval for stationery purchases from the panel up to a total of $100,000 for the financial year and records this approval in writing. Once this limit has been reached for the year, a new approval is needed from the CFO. Controls are in place to monitor stationery expenses and instructions issued to entity officials on the process for ordering stationery and the type of stationery that can be purchased.

**Case Study 2**

The Business Unit Manager of a Large Entity wants to provide an overarching approval for the commitment of relevant money for all future travel within her unit for the financial year. The expenditure for previous financial years has varied considerably, and a reasonable estimate for travel within the unit cannot be accurately determined. There are a number of factors that influence the need and cost of each individual travel proposal. These include:

- if the travel is needed in the particular situation or if alternatives can be used, i.e. video conferencing
- if the type and class of travel is appropriate for the situation
- if the additional costs associated with travel are appropriate, such as accommodation, meals and incidentals, or
- if the timing of travel qualified for best fare of the day, or was in line with other government policies.

Based on the circumstances, the Business Unit Manager decides that travel would more appropriately be considered and approved by a delegate on a case-by-case basis.
Can a minister approve proposed expenditure?

20. The PGPA Act recognises that a minister can approve a proposed expenditure of relevant money, providing they meet the requirements in section 71, namely, that the minister:

- does not approve a proposed expenditure of relevant money unless they are satisfied, after making reasonable inquiries, that it constitutes a proper use of the money
- record the terms of the approval in writing.

21. If the proposed expenditure relates to a grant, then there are additional requirements in the Commonwealth Grants Rules and Guidelines that ministers must comply with.

What are reasonable inquiries?

22. Subsection 71(1) requires a minister to make reasonable inquiries about whether proposed expenditure would be a proper use of relevant money. The nature of the inquiries that the Minister will need to make in a particular case will depend on the nature, significance and value of the proposed expenditure as well as any associated risks.

23. To be satisfied that a proposed expenditure would constitute a proper use of relevant money, the minister can take into account advice from the relevant Commonwealth entity. The entity is encouraged to take appropriate steps to advise their minister of the legal requirements of the PGPA Act and any other relevant information (such as, risks or impediments to achieving outcomes, or evidence to justify a recommendation) that may assist the minister to form a view about whether the proposed expenditure would involve a proper use of relevant money.

What should a record of the approval of a minister include?

24. A record of the approval is required to ensure that there is an appropriate record for accountability purposes (subsection 71(2)). The record should include relevant factual information such as the parties involved and the costs of a proposed expenditure.

When to use the Financial Framework (Supplementary Powers) Act 1997?

25. Section 32B of the FF(SP) Act can provide legislative authority for the Commonwealth to enter into, vary or administer an arrangement that is not authorised by section 23 of the PGPA Act or any other Commonwealth legislation. To rely on this power, the proposed arrangement must be made for the purposes of an arrangement, grant or program listed in Schedule 1AA or 1AB of the Financial Framework (Supplementary Powers) Regulations 1997. For example, section 32B (together with the regulations) provides legislative authority for various:

- open competitive grants rounds
- targeted and one-off grants
• entitlements programs that are not supported by their own legislation
• sponsorships, subsidies and rebates
• gifts of relevant money.

What other legislation authorises Commonwealth expenditure?

26. Other legislation can provide authority for the Commonwealth to spend money and/or enter arrangements. For example, legislation can authorise:
• compensation payments
• the payment of benefits and entitlements (e.g. the Social Security (Administration Act) 1999)
• arrangements to engage employees (e.g. the Public Service Act 1999)
• the provision of tax concessions or offsets.

27. For more on these other ways to commit relevant money, see RMG 411: Grants, Procurements and Other Financial Arrangements.

C. Delegating the power to enter into an arrangement

28. An accountable authority can delegate the power in section 23 of the PGPA Act or section 32B of the FF(SP) Act to enter into an arrangement to:
• officials in their entity or
• officials of another NCE who will use or manage public resources that the accountable authority is responsible for.

29. In delegating the power to enter into arrangements, an accountable authority must have regard to their duties in the PGPA Act, in particular:
• their general duties in sections 25, 26, 27, 28 and 29
• the duty to promote the proper use of the money, i.e. the efficient, effective, economical and ethical use of the money (sections 15, 16 and 18)
• the duty to encourage cooperation to achieve common objectives, where practicable (section 17).

30. An accountable authority can meet these duties by giving directions or instructions to officials about the commitment of relevant money, as part of the entity’s systems of risk management and internal control. For example, an accountable authority could give officials:
• directions about the exercise of the delegated power
• instructions about what is expected from officials to demonstrate the proper use of relevant money, such as when officials are required to obtain a separate approval to commit relevant money before entering an arrangement
instructions to encourage officials to consider, where practicable:

- entering into a contract where the services can be accessed by other entities (such as the Department of Finance currently does in relation to the leasing of vehicles)
- cooperatively sharing an arrangement that allows the inclusion of other entities
- dealing with contracts and payments on behalf of other entities (in these cases, arrangements might also be established to reimburse the entity bearing the initial costs of such contracts).

Who should an accountable authority delegate power to?

31. The scope of an accountable authority's delegation to approve a commitment of relevant money and/or enter into an arrangement will depend on the entity's size, structure, risk appetite and operations. There is no 'one-size-fits-all' approach for delegating relevant powers. For example:

- in a very small entity, the accountable authority could determine that they will personally approve all commitments of relevant money, or will delegate this power to only one person (such as the CFO)
- by contrast, in a large entity the powers may need to be delegated to a range of officials at an appropriate level to facilitate an efficient system of decision-making and administration within the entity and
- in situations where NCEs cooperate to achieve a common objective, officials of another entity may be delegated the power to use public resources to achieve the desired outcome on behalf of government.

D. Exercising the power to enter into arrangements

32. Accountable authorities and delegates exercising the power to commit relevant money by entering into an arrangement must meet their general duties under sections 25 to 29 of the PGPA Act. In particular, these officials must exercise the power to commit relevant money with the degree of care and diligence that a reasonable person would exercise in the same position (section 25 of the PGPA Act) and act honestly, in good faith and for a proper purpose (section 26 of the PGPA Act). This will include being suitably informed of and, where necessary, complying with:

- their entity’s purposes and program objectives, and how the intended commitment of relevant money will support those purposes and objectives
- the environment their entity operates in and the risk appetite of their entity
- any relevant limitations, directions and instructions in their accountable authority’s delegation of the power or in accountable authority instructions
- any other relevant statutory obligations (e.g. the requirement to keep a written record of any approval to commit relevant money in section 18 of the PGPA Rule, or
requirements in the Commonwealth Procurement Rules or Commonwealth Grants Rules and Guidelines).

33. Because NCEs are part of the Commonwealth, a delegate who enters into an arrangement for an NCE does so on behalf of the Commonwealth.

What about an arrangement that involves an indemnity, guarantee or warranty?

34. Some arrangements will not require money to be spent immediately, or at all, but will create an obligation that is contingent on particular events occurring (e.g. an indemnity, guarantee or warranty). An official considering an arrangement containing a contingent liability will need to take into account the same considerations as they do in relation to any other arrangement. However, additional considerations also arise because a contingent liability may impact and constrain the ability to allocate future resources of the entity and the Commonwealth more broadly.

35. Section 60 of the PGPA Act gives the Finance Minister the power to grant indemnities, guarantees and warranties on behalf of the Commonwealth. The Finance Minister has delegated this power to accountable authorities in certain circumstances. That delegation is subject to particular directions (e.g. a delegate may generally only grant an indemnity, guarantee or warranty involving a contingent liability in relation to an event if the delegate is satisfied that the likelihood of the event occurring is less than 5% and the potential expenditure is likely to be less than $30 million). In order for an official to enter into an arrangement containing an indemnity, guarantee or warranty, they must have been sub-delegated power in section 60 of the PGPA Act and must comply with any relevant directions. For further information, see RMG 414: Indemnities, guarantees and warranties.

Who needs to be delegated power to administer an arrangement?

36. Subsection 23(1) of the PGPA Act and subsection 32B(1) of the FF(SP) Act also confer power on an accountable authority or their delegate to administer an arrangement. An official who makes decisions in relation to an arrangement will be ‘administering’ the arrangement. For example, a contract manager who decides that a contractor has reached a milestone and can receive their next payment will be ‘administering’ the contract. To make this decision, the contract manager must be delegated the power in subsection 23(1) of the PGPA Act or subsection 32B(1) of the FF(SP) Act.

37. By contrast, a person who is performing processing tasks in relation to an arrangement, without making any decisions about the arrangement, is not administering the arrangement and will not need to be delegated power under subsection 23(1) of the PGPA Act or subsection 32B(1) of the FF(SP) Act.

E. Recording an approval to commit relevant money

38. An official can provide verbal approval for a commitment of relevant money. However, an official must (either when entering into an arrangement or, if required, as a separate
step) make a written record of the approval as soon as practicable after giving it (section 18 of the PGPA Rule).

39. If applicable, officials will also need to have regard to requirements for documenting approvals under the:

- **Commonwealth Grants Rules and Guidelines** (CGRGs), e.g. officials must record the basis for the approval of a grant, or
- **Commonwealth Procurement Rules** (CPRs), e.g. officials must record the procurement requirements and process, how value for money was considered and achieved and approvals and decisions made.

40. The accountable authority’s instructions may set out what type of record of an approval to commit relevant money is appropriate in the circumstances. In considering what form of record will be sufficient, consider:

- whether the record is proportionate to the significance, value, level of risk and sensitivities associated with the commitment, e.g. when hiring a taxi to attend a meeting, the cab charge voucher and a receipt from the taxi driver could themselves be sufficient to record the approval and
- who will rely on the record.

**What is an appropriate record of an approval to commit relevant money?**

41. The written record of an approval can:

- be paper or electronic (e.g. an email or within an information system where a delegate ‘presses a button’), provided it creates a record which can be retrieved (section 12 of the **Electronic Transactions Act 1999**)
- be a signed minute, a signed purchase order or purchase order request
- include the terms and/or basis of particular approvals
- include other relevant information, such as the parties involved and the costs of the proposed commitment.

42. For example, records of high-risk commitments could include, where appropriate:

- the key elements of the proposed commitment, such as the item, cost, parties, timeframes and any risks associated with the proposal
- any conditions on the approval, such as timing, or additional approvals and
- contingent liabilities, such as indemnities.
Corporate Commonwealth entities (CCEs)

A. Committing of relevant money

1. Commonwealth entities commit and spend relevant money to achieve the purposes and objectives of their entity and the Australian Government.

2. Relevant money is money standing to the credit of any bank account of a CCE (or the Commonwealth), or money that is held by a CCE (or the Commonwealth).

3. A commitment of relevant money is an activity that creates an obligation to pay relevant money. A common way to commit relevant money is by entering into an arrangement. This includes an obligation that is contingent upon certain events occurring (for example, indemnities, guarantees and warranties).

What is an arrangement?

4. An arrangement includes a contract, agreement, deed or understanding. An arrangement covers any other instruments between parties that create rights and obligations.

5. The need to enter into an arrangement can arise in a variety of circumstances, for example where an entity:

   • procuring goods or services to support its operations (such as, stationery, furnishings, information technology (ICT), consultants, electricity and other utilities, rent, travel, vehicles, subscriptions, contracts, attending conferences, legal, research and other professional services) for itself, or
   
   • is cooperating with third parties, to achieve purposes of the entity.

6. The purpose or outcome being sought will influence the type of arrangement. For example, the two most common types of arrangements are:

   • procurement of goods or services to support entity operations (such as, stationery, furnishings, information technology (ICT), consultants, electricity and other utilities, rent, travel, vehicles, subscriptions, contracts, attending conferences, legal, research and other professional services)

   • providing grants to others to achieve the purposes of the entity.

B. Legislative authority to enter into arrangements involving the commitment of relevant money

7. CCEs are legally separate from the Commonwealth and generally derive power to enter into arrangements involving the commitment of relevant money from their enabling legislation and from their body corporate nature.

8. An accountable authority of a CCE may be able to delegate, or authorise officials to exercise, the power to enter into arrangements under the CCE’s enabling legislation. In
deciding whether to devolve relevant powers, an accountable authority must have regard to their duties in the PGPA Act, in particular:

- the general duties in sections 25, 26, 27, 28 and 29
- the duty to promote the proper use of the money, i.e. the efficient, effective, economical and ethical use of the money (sections 15, 16 and 18)
- the duty to encourage cooperation to achieve common objectives, where practicable (section 17).

9. An accountable authority can meet these duties by giving directions or instructions to officials about the commitment of relevant money, as part of their entity’s systems of risk management and internal control. For example, an accountable authority could give officials:

- instructions on what is expected from officials to demonstrate the proper use of relevant money
- instructions to encourage officials to consider, where practicable:
  - entering into a contract where the services can be accessed by other entities
  - cooperatively sharing an arrangement that allows the inclusion of other entities
  - dealing with contracts and payments on behalf of other entities (in these cases, arrangements might also be established to reimburse the entity bearing the initial costs of such contracts).

C. Exercising the power to enter into arrangements

10. Officials who are able to enter into arrangements on behalf of a CCE must exercise the power in accordance with their general duties under sections 25 to 29 of the PGPA Act. In particular, they must exercise the power with the degree of care and diligence that a reasonable person would exercise in the same position (section 25 of the PGPA Act) and act honestly, in good faith and for a proper purpose (section 26 of the PGPA Act). This will include being suitably informed of and, where necessary, complying with:

- their entity’s purposes and program objectives
- the environment their entity operates in and the risk appetite of their entity
- any relevant instructions from their accountable authority
- any other relevant legislative requirements (e.g. the requirement to keep a written record of an approval to commit relevant money in accordance with section 18 of the PGPA Rule or, where required, the Commonwealth Procurement Rules).

D. Recording an approval to commit relevant money

11. An official can provide verbal approval for a commitment of relevant money. However, an official must make a written record of the approval as soon as practicable after giving it (section 18 of the PGPA Rule).
12. If applicable, officials will also need to have regard to requirements for documenting approvals under Commonwealth Procurement Rules (CPRs), e.g. recording the procurement requirements and process, how value for money was considered and achieved and approvals and decisions made. The CPRs apply to CCEs listed in section 30 of the PGPA Rule.

13. The accountable authority’s instructions may set out what type of record of an approval to commit relevant money is appropriate in the circumstances. In considering what form of record will be sufficient, consider:

- whether the record is proportionate to the significance, value, level of risk and sensitivities associated with the commitment, e.g. when hiring a taxi to attend a meeting, the cab charge voucher and a receipt from the taxi driver could themselves be sufficient to record the approval and

- who will rely on the record.

What is an appropriate record of an approval to commit relevant money?

14. The written record of an approval can:

- be paper or electronic (an email or within an information system where a delegate ‘presses a button’), provided it creates a record which can be retrieved (section 12 of the Electronic Transactions Act 1999)

- be a signed minute, a signed purchase order or purchase order request

- include the terms and/or basis of particular approvals

- include other relevant information, such as the parties involved and the costs of the proposed commitment.

15. For example, records of high-risk commitments could include, where appropriate:

- the key elements of the proposed commitment, such as the item, cost, parties, timeframes and any risks associated with the proposal

- any conditions on the approval, such as timing, or additional approvals and

- contingent liabilities, such as indemnities.