



**OFFICIAL**

**EXECUTIVE MINUTE**

on

**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT  
REPORT [No.497]**

***Inquiry into the Commonwealth Financial Statements 2021-22***

**General comments**

The Department welcomes the opportunity to respond to Report No. 497 of the Joint Committee of Public Accounts and Audit 'Inquiry into the Commonwealth Financial Statements 2021-22' (the Report).

**Response to the recommendation(s)**

**JCPAA Recommendation No.1 paragraph 2.47**

*The Committee recommends that the Department of Home Affairs provide an update to the Committee within six months of the tabling of this report regarding the implementation of recommendations arising from the 2022 independent budget review and actions taken by Government and the department to improve its budget sustainability and structural misalignment between the department's baseline budget situation and its core activities.*

**Recommendation is supported.**

***Executive Summary***

The Department of Home Affairs (the Department) has balanced operational outcomes and allocated budget through continual cost, risk and service delivery trade-offs, as evidenced by our financial results showing an average of less than one percent deviation from allocated budget from 2014-15 to 2021-22.

However, in 2022-23, the financial pressures associated with keeping pace with volumetric increases, growth in operational demands and inflationary pressures, combined with the cumulative impact of efficiencies, led to an operating loss of \$109 million inclusive of bond rate movements, within the Department's approved operating loss of \$120 million. These financial pressures are continuing into 2023-24.

The Department has taken a number of immediate actions to reduce expenditure this year including Group-led functional efficiency reviews to ensure alignment to government priorities, the imposition of rigorous budget controls on contractor and consultancy engagement and recruitment, cessation of non-critical travel and training, and the ceasing/deferral of discretionary activities. The longer-term action to remediate these pressures includes progressing an Independent Prioritisation and Resourcing exercise and an Australian Public Service Commission led capability review.

These processes are being undertaken in consultation with the Department of Finance (Finance) to ensure continued levels of collaboration and transparency, with the outcomes to provide an evidence base for the ongoing fiscal strategy for the Department, to be prosecuted through a comeback to Government in 2024-25.

The Department continues to engage regularly with Finance at strategic and operational levels to ensure a clear strategic vision and effective engagement through budget processes. This has resulted in improved understanding of the nature and complexity of the Department's operations and early, open and transparent engagement when new matters arise.

Specific activities addressing each recommendation arising from the 2022 independent budget review (Budget Review), and the strategy to improve budget sustainability, are detailed below.

***Specific actions against each Independent Budget Review (known internally as the Independent Financial Review (IFR)) recommendation***

**IFR Recommendation 1**

As a matter of priority, the Department, and the Department of Finance should embed a framework to:

- engender trust and ongoing collaboration; and
- ensure clarity and understanding of the current state, and desired future state.

The framework would be similar in nature to that in place between Department of Finance and Department of Defence, including:

- a series of strategic, executive level dialogues
- greater involvement by the Department of Finance in the prioritisation, planning and strategy of proposals
- monthly meetings between officers to share information and data as proposals are being developed; and
- transparency and robust contestability.

***Current Status:***

The Department regularly engages with Finance, both at Senior Executive and working levels, to ensure:

- Shared understanding of the Home Affairs Strategic vision and priorities;
- Improved transparency regarding the nature and complexity of Home Affairs operations; and
- Early, open and frank discussion when new and sometimes unexpected critical matters arise.

At Senior Executive levels, engagement is ongoing and routine, commencing at Secretary level, and including Deputy Secretary and First Assistant Secretary level engagement.

During the year, and more frequently as part of the Budget and MYEFO/PAES rounds, the External Budgets and Revenue Branch (within the Department) work collaboratively with their colleagues in Home and Foreign Affairs Branch in Finance on Cabinet Submissions, New Policy Proposals, associated costings, and estimates updates consistent with Estimates Memorandum issued by Finance. The working level relationship is strong and continues to evolve.

### IFR Recommendation 2

The pressures imposed by cumulative efficiency dividends and savings since 2008, combined with an increased demand on the operational side has seen significant activities underfunded and under resourced, noting that some functions are supported by annual funding arrangements. The Department, including the ABF and the Department of Finance executive should engage in the development of a solution which outlines baseline funding required and its alignment to broader Departmental strategy. This may include work on the Department's proposed Sustainable Funding Model.

#### *Current Status:*

The Department is taking immediate action to curb spending in 2023-24 and implementing longer-term budget strategies to enable ongoing efficient and effective operational deliverables. These include:

- Implementation of internal budget control measures and forecast deficit reduction targets;
- Group-led internal functional and efficiency reviews;
- Progressing an Australian Public Service Commission led Capability Review (Capability Review); and
- Undertaking an Independent Prioritisation and Resourcing Exercise (IPRE), with the terms of reference to be agreed with the Government.

The Capability Review, currently underway, is assessing the Department's ability to meet future objectives and challenges, facilitate discussions around the organisation's desired future state, highlight strengths and organisational capability gaps and identify opportunities to act on them.

The IPRE will include a forensic financial analysis through an assessment of current state budget, functions, prioritisation and resourcing, and consideration of the appropriateness of allocation of resources to priorities, to inform a sustainable approach to future funding of the Department and internal allocations to achieve government objectives.

The outcomes of these reviews and the internal work undertaken are intended to provide an evidence base for the ongoing fiscal strategy for the Department, to be prosecuted through a comeback to Government in 2024-25.

**IFR Recommendation 3**

The Department and the Department of Finance should implement a sustainable data and information sharing arrangement to support the specific information provided in submissions by the Department, which will contribute to the ongoing understanding of the Department's Strategic Planning Framework. This arrangement will build on the data sharing arrangement utilised as part of the review, including regular updates of ASL and departmental expenses. In addition, improving the broader data capture and use by the Department will better enable benefits realisation.

***Current Status:***

The Department reports monthly to Finance, consistent with the financial reporting timetable, providing updated progress on the financial performance of the Department.

Further, as part of each estimates update process, information is collated and provided to Finance to support the underlying assumptions and strategies for every costing within the Department's budget submissions. This information is then discussed with Finance to enable agreement on the appropriate levels of funding required to deliver the outcome.

Financial and ASL information at a Branch level is regularly provided and discussed with Finance to improve transparency and the ability for Finance to strategically analyse the financial impacts of decisions. The most recent exchange of this detailed level of information occurred in the context of the 2023 MYEFO process.

As part of IFR Recommendation 1, the frequency and broader reporting requirements will be continuously monitored.

**IFR Recommendation 4**

Compliance, ICT, and long-term capability needs to be prioritised and resourced sufficiently to meet government outcomes. The Department's position has been exacerbated by a Departmental Capital Budget shortfall, impacting ICT and long-term capability in particular. The Department, in its Strategic Planning Framework, should continue to outline investment in foundational capabilities and systems, and realisation of efficiencies through upgrades and modernisation. These opportunities should continue in accordance with the ICT modernisation process led by the Digital Transformation Agency.

***Current Status:***

Compliance, ICT and long term capability are being reviewed as part of the Capability Review and IPRE detailed in Recommendation 2, with results informing the future strategy. The Department is also continuing to prioritise its internal Departmental Capital Budget and Administered Capital Budget to ensure that operational requirements are met, and working with the Digital Transformation Agency in relation to ICT proposals.

**IFR Recommendation 5**

The Department, together with the Department of Finance should work together to streamline the analysis and questioning process following Budget proposal submissions, to drive time efficiencies and an agreed, shared way of working.

**Current Status:**

This has been incorporated into Recommendations 1 and 3.

**JCPAA Recommendation No.6 paragraph 2.119**

*The Committee recommends that the Department of Home Affairs develop appropriate performance measures to be included in its annual performance statement of its effectiveness in promoting compliance with the cyber security components of the Protective Security Policy Framework (PSPF).*

**Recommendation is supported.**

**Current Status:**

The Department will develop a performance measure(s) for inclusion in the Department's 2024–25 Corporate Plan to acquit recommendation 6, in consultation with accountable SES, the Audit and Risk Committee and the Accountable Authority.

The Department's 2023–24 Corporate Plan was published in July 2023, prior to the Department assuming responsibility for promoting compliance with the cyber security components of the PSPF via the August 2023 Machinery-of-Government changes. As such, the 2023–24 Annual Report will not include performance information against a specific performance measure, however supporting narrative outlining efforts of the Department between August 2023 and end June 2024 will be included in the broader summary of Departmental performance.

*Signed by*



*Lee-anne Monterosso A/g Chief Operating Officer, Department of Home Affairs*