

ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE

2014-15 ANNUAL REPORT HEARINGS
ANSWERS TO ADDITIONAL QUESTIONS

DEPARTMENT OF TREASURY

Hon Ken Travers MLC asked:

- (1) *I refer to the 'whole-of state risk management project' undertaken by the Department of Regional Development and Lands (DRDL) in 2012 and ask:*
- (a) *What role has the Department of Treasury had in developing a whole of state risk management strategy?*
 - (b) *Did Treasury receive a copy of the KPMG report commissioned by the DRDL?*
 - (c) *Which agency is currently the lead for this project?*
 - (d) *Has any additional funding been allocated to address issues raised in the risk management report prepared in 2012 by DRDL?*
 - (e) *If yes to (d):*
 - (i) *how much has been allocated;*
 - (ii) *which agencies was it allocated to; and*
 - (iii) *for what purpose were the funds allocated?*
 - (f) *Do the whole of Government accounts make any provision for the financial risks or potential liabilities identified in the work undertaken by the DRDL?*
 - (g) *If yes to (f), please provide details of how?*

Answer:

- (a) Treasury reviewed the content of a KPMG report and made recommendations on the Cabinet submission accompanying it.
- (b) Yes.
- (c) The Whole-of-State Risk Management Project described in the 2012 Department of Regional Development and Lands Annual Report effectively ceased with the completion of the final KPMG Report in May 2012.

- (d) No additional funding was provided in direct response to the KPMG Report recommendations, but additional funding has been provided to both FESA (now the Department of Fire and Emergency Services, or DFES) and DEC (now the Department of Parks and Wildlife, or DPAW) in response to fire risks on Crown land.
- (e) (i) The 2012-13 Budget provided a total allocation of \$81.9 million (over the period 2012-13 to 2015-16) in response to the Keelty recommendations into the Roleystone and Margaret River fires.
- (ii, iii) \$49 million to DFES – for the following:
- \$20 million for the operation of the Office of Bushfire Management; enhanced service delivery; policy and secretariat support; and increased training;
 - \$20 million to support Keelty review recommendations;
 - \$5 million for a financial assistance package to property owners in the Margaret River fires; and
 - \$4 million for the development of a web-based crisis incident management system; and
- \$32.9 million to DPAW – to improve DPAW's fire preparedness, supplement its full time fire management staff, improve capacity for prescribed burning, purchase weather forecasting services, and allow the inspection, maintenance and replacement of ageing bridges in its strategic road network.
- (f) No.
- (g) Not applicable.
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M. H. H.

Hon Ken Travers MLC asked:

- (2) *I refer to proposed sale of part of the Keystart loan book and ask:*
- (a) *How will Treasury determine which part of the loan book will be sold?*
 - (b) *How will Treasury determine which portions of risk to divest, and which portion to retain?*
 - (c) *Will the individuals who hold these loans be notified that the Government is proposing to sell their loan?*
 - (d) *Will these individuals be consulted by the Government prior to the sale of their loan?*
 - (e) *Will the Government continue to carry any risk for loans sold to the private sector?*
 - (f) *Will the private sector purchaser of the loans be able to determine the policy for managing default loans or will they be required to comply with Keystart current policy and practices?*
 - (g) *How will the long term financial benefits to the State of keeping the loans be assessed relative to the benefits to the State of selling the loans?*
 - (h) *Is any legislation required prior to the sale of the loans?*

Answer:

- (a) The lead financial advisor will work with Keystart and advise on a portfolio of loans that is commercially acceptable to be sold via equitable assignment. Conceptually the loans that will be selected will be those loans within the portfolio that are more seasoned (i.e. the time of origination was longer ago). The equitable assignment will be carried out via a competitive process and bidders will be required to advise of their acceptance or otherwise regarding the proposed loan portfolio and the disclosed terms and conditions.
- (b) As above, the lead financial advisor will advise on the appropriate make-up of the portfolio, taking into consideration risk, credit worthiness and the impact upon Keystart's remaining portfolio. Keystart will be actively involved in determining the portfolio and also assessing the impact upon its ongoing business.
- (c) Given the process of selecting the loans, undertaking the competitive process and then negotiating with a preferred respondent, a final portfolio of loans to be sold will not be known until the process is completed.

It is expected that affected customers will be notified closer to the execution of the assignment. As the sale will be conducted via an equitable assignment, whereby Keystart will still remain the mortgage provider on the legal title but assigns the risks and rewards associated with the loans, the existing terms and conditions of the loans will not change. Keystart will remain as the servicer of the loan and customers will continue to deal with Keystart regarding their loans. Clients have and will continue to have at any stage throughout their loan term the option to refinance with another financier.

- (d) Please see the answer to the previous question.
- (e) Under this equitable assignment process the risks and rewards of the loans will be carried by the private sector.
- (f) It is intended that Keystart will continue to manage the default process in accordance with its current policy and practices under a service level agreement.
- (g) The benefits of the equitable assignment are the reduction in the State's borrowings used to finance those Keystart loans (Keystart's borrowings are currently at \$4.2 billion) and in the State's exposure to the residential mortgage market.

As part of the competitive process, bidders will have to indicate a price for the assignment of the loans. The price will be assessed, along with the benefits described, against the retention of the loans to ensure an appropriate risk and reward balance is achieved.

- (h) No.
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M. Maher

Hon Ken Travers MLC asked:

(3) I refer to the proposed sale of Government assets and ask:

- (a) Over what time frame will the Government assess the financial benefits to the State of maintaining or selling the asset?*
- (b) Will all sale assessments be undertaken on a business as usual approach or will any assessment be undertaken of possible new charging regimes being implemented?*
- (c) Will the money raised be used to pay down debt or to undertake new capital projects?*
- (d) What will be the impact on state finances if money from the sale of income producing assets is used to purchase assets that do not generate sufficient income to meet their ongoing operating costs?*

Answer:

- (a) The timeframes applied depend on the asset being sold and the terms of sale. In general, sale values will be assessed against equivalent retention values of the asset remaining in Government ownership. For example, if an asset is sold by way of long-term lease, the retention value will be measured assuming Government ownership over the same period as the lease term.
- (b) Again, this will depend on the asset being sold and the flexibility or otherwise to alter charging arrangements. In general, a 'base case' will be established that makes assumptions for operating parameters into the future, including revenue assumptions that are realistic and defensible to scrutiny.
- (c) Sale proceeds will be used to pay down debt.
- (d) As indicated in the previous answer, sale proceeds will be used to pay down debt rather than purchase new assets.

M. A. A.

Hon Ken Travers MLC asked:

- (4) *I refer to KPI on asset sales on page 162 and ask:*
- (a) *Which asset sales are included within this KPI?*
 - (b) *Are any land sales included?*

Answer:

- (a) The Key Effectiveness and Efficiency Indicators for the Asset Sales Program relate to divestment projects that have approved Project Plans (including project budgets and specified project timeframes). The asset sales projects that currently meet this criterion are:
 - 1. Perth Market Authority (Market City);
 - 2. Utah Point Bulk Handling Facility; and
 - 3. Fremantle Port.
 - (b) No. Land asset sales are being managed by the Department of Lands.
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M. Valler

Hon Ken Travers MLC asked:

- (5) *I refer to the recent increases in rent for Housing Authority properties whereby tenants will now be charged a standard rate of 25% of all their accessible income on rent and ask*
- (a) *Was the additional revenue from this increase incorporated into the financial statements for the Housing Authority in volume 2 of the 2015-16 Budget Papers?*
- (b) *If yes, how much additional revenue was included in this year's budget and for each year of the forward estimates?*
- (c) *If no, when was the decision taken to increase rent and how much additional revenue is expected to be collected from this increase in each year?*

Answer:

(5)

(a) Yes.

(b)

	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Additional rent revenue	8.4	15.9	16.8	17.7

(c) Not applicable.

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