ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE

ADDITIONAL QUESTIONS

Date of Hearing: 10 June 2014

Department of Treasury

Question: the Standing Committee on Estimates and Financial Operations asked –

Strategic Asset Management Framework

(1) We refer to Budget Paper Two, page 609, the Office of Strategic Projects updated the SAMF in 2013-14 and will submit it to the Government for approval in early 2014-15, and ask -

(a) When did the Department begin to update the Strategic Asset Management Framework (SAMF)?

(b) How does the proposed SAMF differ from the existing one?

Answer:

(a) The Department of Treasury (at the time, as part of the former Department of Treasury and Finance) commenced the review and update of the SAMF in November 2009. To mid-2012, the Department undertook the initial development, agency consultation and feedback, refinement and finalisation of the SAMF exposure drafts.

(b) The proposed SAMF suite of policy statements and guidelines builds on the asset management principles and methodology outlined in the existing version.

Copies of the proposed SAMF documents are available at www.treasury.wa.gov.au/cms/content.aspx?id=13297.

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(2) We refer to Budget Paper Two, page 610, one of the Department's key effectiveness indicators is on 'the percentage of highest value agencies complying with the SAMF or equivalent framework'. The percentage is expected to decline from 40% in 2012-13 to 27% in 2013-14, and ask-

(a) How do you define 'highest value agencies'?

(b) Why has the percentage declined from 40% in 2012-13 to 27% in 2013-14?

(c) How do you intend to achieve a 75% compliance rate in 2014-15?

Answer:

(a) Highest value agencies are defined as those agencies, including GTEs, that account for 90% (by value) of the total State budget capital works projects.

(b) The composition of agencies making up the top 90% by value of the capital works program has changed between the two years.

Agencies that were compliant in 2012-13 that are no longer in the top 90% of capital allocation in 2013-14 are thus not included in the count for this year. However, none of these agencies have necessarily "lost" their compliance.

The decline from 40% to 27% can be explained as follows:

The 40% is as per our annual report for 2012-13 and the 27% was the figure at the time of the estimates hearing (10 June 2014). This figure has since been revised upwards to 38% based on updated information received as part of the financial year end process and may be subject to further adjustments.

(c) In early 2014-15, Treasury will, pending approval from Cabinet, instigate a comprehensive review of all aspects of this KPI. It is envisaged that a key element of this review will include a comprehensive education and communication program for agencies, which is expected to lift agency compliance. The review will also include an examination of the appropriate compliance target which Treasury will report on going forward.

Risks to the Outlook

(3) *We refer to Budget Paper Three, page 83, the Budget has identified a material risk to the operating and capital outlook for Horizon Power from its electricity generation procurement process in the Pilbara. It is 'likely to be reflected' in the 2014-15 Mid-year Review. However, this risk was previously identified in the 2013-14 Budget and the 2013-14 Mid-year Review, with the latter publication suggesting that it would be resolved by the 2014-15 Budget. The Horizon Power electricity generation procurement process in the Pilbara was expected to be completed by this budget. What has caused the delay?*

Answer:

Delays have been caused with the long-term procurement strategy due to the contractual complexities involved with dealing with both an Independent Power Producer and an additional power user.

Savings Measures

(4) *We refer to Budget Paper Three, page 3 and 171; the Government will reduce asset investment spending by $478 million over the four years to 2017-18 to reflect 'recent low growth in building and construction costs'. Individual program savings are not expected to be known until the 2014-15 mid-year review, and ask -*

(a) *the 5% reduction in asset investment spending a 'provision' for the purposes of the whole-of-government accounts? If so, why is it not included with the other provisions on page 198? If not, how have you allocated these savings to agencies, when individual program savings will not be known until the 2014-15 mid-year review?*

(b) *Why is the impact of lower building and construction costs on the asset investment program presented as a 'saving measure', while lower Water Corporation operating subsidies (worth $225.9 million over four years) are not?*

Answer:

(a) The 5% Asset Investment Program (AIP) efficiency measure is not included with the whole-of-government provisions on page 198 as the relevant savings have been allocated to individual agencies. In addition to reporting the savings for each affected agency in Chapter 6 of Budget Paper 3, the affected agencies' Budget Paper No. 2 statements detail the quantum of savings allocated to that agency under the heading 'Asset Investment Program Efficiency Measure'.

(b) The 5% AIP efficiency measure is a policy decision taken by Government to reduce the quantum of previously approved expenditure on the State's AIP and therefore is classified as a savings measure. In contrast, the changes to the operating subsidy for the Water Corporation reflect parameter changes driven by lower inflation and growth forecasts, and a number of new projects eligible for an operating subsidy.

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(5) *We refer to Budget Paper Three, page 3 - 5, in 2014-15, the Government will recover an estimated $250 million in 'excess' cash held in agency bank accounts and return it to the Consolidated Account, reducing the pressure on central borrowings. The measure is not expected to have any effect on the net operating balance or net debt. If there is no impact on the net operating balance or net debt, why is the measure described as a 'saving measure'?*

Answer:

The recovery of excess cash balances from agencies will enable the Consolidated Account to borrow less, thereby reducing the gross debt of the State.

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(6) *In December 2007, the then-Department of Treasury and Finance released its 'Cash Management Policy', which sought to improve the management of agency cash balances and 'operationalise' the identification of surplus or excess cash balances for the purposes of section 20 of the Financial Management Act 2006. The Policy was due to be reviewed in late 2009, and ask -*

(a) *What role did the Cash Management Policy have in identifying excess agency cash?*

(b) *When was the Policy last updated?*

Answer:

(a) The Cash Management Policy was applied to the expected out-turn for agency cash positions at 30 June 2014. Those agencies with unrestricted cash amounts in excess of the 5% working cash allowance were identified for further analysis by the Department of Treasury. The amount of actual excess cash held by agencies will be reviewed once the 2013-14 audited financial statements are complete.

(b) The current Cash Management Policy was issued in December 2007.

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(7) *The 2013-14 Government Mid-Year Financial Projection Statement, page 18, the cash management practices of the Public Bank Account were reviewed and the State Solicitor advised that it was not necessary for the Government to borrow to meet any shortfalls in the Consolidated Account at the end of the financial year, and ask -*

(a) *Will you provide a copy of the review of the cash management practices of the Public Bank Account that occurred last year to the Committee?*

(b) *Will you provide a copy of the advice from the State Solicitor to the Committee? If the Department does not think this information should be made public, it can request that it is given a private status as well as outlining the reasons why this is required.*

Answer:

(a) The following provides an overview of the key points of the review of the cash management practices of the Public Bank Account (PBA). This review was completed in late 2013, and was endorsed by a Steering Committee of senior representatives of the Department of Treasury and the Western Australian Treasury Corporation:

- section 12 of the *Financial Management Act 2006* (FMA) authorises the Treasurer to apply any money standing to the credit of the PBA to make any payment that may be lawfully charged to an account of the public ledger or an agency Special Purpose Account (SPA);
- nevertheless, long-standing practice has been to borrow (under a Loan Act Authorisation) to the extent required to ensure the Consolidated Account (which is part of the PBA) is not in cash deficit as at 30 June in any year;
- a number of the agency SPAs in the PBA earn interest. On average, the PBA balance needs to be maintained at the equivalent of the aggregate of agency SPAs, so income from PBA investment operations is sufficient to pay the SPAs interest; and
- following legal advice from the State Solicitor's Office, the Steering Committee agreed to no longer borrow to remove the Consolidated Account cash deficit at 30 June each year. Instead, Consolidated Account borrowing against the Loan Acts would be based on the projected aggregate balance of the interest-earning SPAs over the year.

(b) Treasury is unable to provide the requested legal advice to the Committee. The State Solicitor's Office has advised that its legal advice is subject to Legal Professional Privilege. That privilege can only be waived by the Attorney General.

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(8) *The 2013-14 Government Mid-Year Financial Projection Statement, page 18, changes to the management of the Consolidated Account provided net interest savings of around $5 million per year, even though the changes were net debt neutral. The net interest savings were said to reflect the interest margin between borrowings and investments. If the changes to the cash management practices in the mid-year review produced an interest saving, why doesn't the measure to recover excess cash from agencies?*

Answer:

The quantum of the Consolidated Account borrowing arrangements reflected in the 2013-14 Mid-year Review involved borrowing balances projected at that time to be in the order of $2.5 billion by 30 June 2017.

The 2014-15 Budget measure to return 'excess' cash balances to the Consolidated Account after 30 June 2014 accounts are finalised is forecast to be in the order of $250 million. There will be an associated interest saving of less than $0.5 million per year. For whole-of-government forecasting purposes, this indicative net interest saving was conservatively rounded to zero in the 2014-15 Budget.

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(9) *We refer to Budget Paper Two, page 445, 606 & 846, all agencies show an increase in spending 2013-14 as a result of the voluntary separation scheme. However, the Department of Treasury, the Department of Finance and the Equal Opportunity Commission are the only entities to show savings from the initiative. The Department of Finance shows savings in one year only, and ask -*

(a) *Should agencies disclose savings from the 2013-14 Voluntary Separation Scheme?*

(b) *What are the on-going savings from the scheme to the whole-of-government accounts?*

Answer:

(a) The Voluntary Separation Scheme was implemented as a tool to assist agencies to achieve Public Sector Workforce Reform savings targets, the majority of which stemmed from application of the Consumer Price Index salary cap (as disclosed on pages 174 and 175 of Budget Paper No. 3 in 2013-14). These savings targets, together with savings from other reforms, were reflected in agency budgets as part of the 2013-14 Budget.

The three agencies showing Voluntary Separation Scheme savings in the 2014-15 Budget identified savings in excess of approved targets prior to the cut-off date for the 2014-15 Budget. As a consequence, the agencies concerned were required to return the excess savings to Government and adjust their budgets accordingly.

(b) The whole-of-government salaries-related savings from the Voluntary Separation Scheme are estimated to be $97.1 million per annum, with a further $9.2 million per annum in estimated superannuation cost savings. As noted in point (a) above, these savings are already reflected in the budget and forward estimates.

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(10) We refer to Budget Paper Three, page 44, the Government is examining the potential for asset sales. The impact of asset sales has not been included in the budget estimates. [Legislative Assembly Estimates Hearing, Department of Treasury, p. 26] Ernst and Young has been contracted to scope the potential for asset sales, and ask -

(a) Will Treasury provide the report prepared by Ernst and Young on the potential for asset sales?

(b) Has this report been completed?

Answer:

(a) No. This report is Cabinet in confidence.

(b) Yes.

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(11) Where does the spending associated with the shark drumline policy appear in the Budget? Should we expect to see these costs in the spending changes for the Department of the Premier and Cabinet or the Department of Fisheries?

Answer:

The expenditure forms part of the Total Cost of Services of the Department of the Premier and Cabinet and the Department of Fisheries.

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(12) *What criteria does the Department of Treasury use to determine what is inside the scope of the spending changes table in Budget Paper Two?*

Answer:

The spending changes table outlines all recurrent spending changes, other than net debt neutral cashflow timing changes and non-discretionary accounting adjustments, impacting on the agency's income statement, since publication of the preceding year's Budget.

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(13) *We refer to Budget Paper Two, page 605-606, a number of equity injections - the Custodial Infrastructure Program, the Sustainable Funding and Contracting with the Not-for-Profit Sector Initiative and the Perth Children's Hospital Transition Program - require agencies to submit business cases and planning details for Government approval. What is the quality of business cases received by the Department under these programs and for spending programs more generally?*

Answer:

Typically, the business cases received by the Department under these programs are of a high quality. This is largely a result of the Department engaging and advising applicable government agencies in the development of business cases and planning details prior to a formal submission. The quality of business cases for general spending programs vary according to the degree of consultation and input sought by government agencies during development.

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(14) We refer to Budget Paper Three page 271 and 219, there is a persistent divergence between the combined royalty income and other revenue and its cashflow statement equivalent of approximately $1.0 billion. Why are 'other receipts' in the general government cashflow statement persistently higher than the combined total of royalty income and other revenue on the general government operating statement?

Answer:

Royalty and 'other' revenue projections on page 217 of the 2014-15 Budget Paper No. 3: *Economic and Fiscal Outlook* are approximately $1 billion lower than the 'other' receipts projections on page 219 of the same publication, and reflect GST receipts on transactions and differences in accrued revenue and cash receipts. Consistent with the Australian Accounting Standards Board Urgent Issues Group Interpretation 1031, revenue, expenses and assets are to be recognised net of the applicable GST in the operating statement, while cash flows are to be inclusive of GST receipts on transactions.

For the 2014-15 year, royalty revenue and 'other' revenue are forecast to be $6,620 million while 'other' receipts are forecast to be $7,594 million in the same year. The $974 million difference includes:

- $1,040 million in forecast GST receipts on transactions (included in 'other' receipts); and
- $66 million higher accrued revenue relative to cash receipts, largely representing timing differences between the recognition of revenue and the receipt of the associated cash.

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(15) *The Commonwealth Government budget is released too late for its impact to be incorporated into the Western Australian budget. This effectively means that the Western Australian budget is out-of-date before it is even released. Has the Department considered shifting the budget timetable to enable the Commonwealth Government budget to be materially incorporated?*

Answer:

No.

To incorporate Commonwealth Budget forecasts in State Budget estimates after the presentation of the Commonwealth's Budget on the second Tuesday in May would delay Budget cut-off to at least the end of May each year, resulting in presentation of the State Budget in mid to late June, and delay the Estimates Hearings process to beyond Parliament's usual Winter recess. This would then require the passage of a Supply Bill each year to provide temporary authority for appropriations until the Budget Appropriation Bills were passed and received Royal Assent.

The Hon Robin Chapple MLC asked –

(16) *I refer to page 611, 'Financial Management and Reporting', is Treasury aware of, given advice about, or has otherwise been involved in any of the following during 2013/14 -*

(a) *Any change in interpretation of any of the terms in s 19 of the Lotteries Commission Act (LCA), such as in particular 'approved purpose' and / or 'eligible organization'?*

(b) *The Lotteries Commission compliance during 13/14 and with ss 20(4) and (5) of the LCA?*

(c) *Any change in interpretation of s 20(6) of the LCA?*

(d) *Any change in the Lotteries Commission's policy or approach regarding distribution under section 22(2) of the LCA?*

(e) *Any change in policy or approach by the Minister for Sport and Recreation regarding distribution under ss 22(4), (6) and / or (7) of the LCA?*

(f) *Any change in policy or approach by the Minister for Culture and the Arts regarding distribution under s 22(5), (6) and / or (7) of the LCA?*

(g) *Any change in the Lotteries Commission's and / or Premier's (as Minister responsible for the Lotteries Commission) policy or approach regarding distribution under s 24 of the LCA?*

Answer:

(a) No.

(b) No.

(c) No.

(d) No.

(e) No.

(f) No.

(g) No.

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(17) Is Treasury satisfied with the following -

(a) The Lotteries Commission's compliance during 2013/14 with ss20(4) and (5) of the LCA?

(b) The Lotteries Commission's compliance during 13/14 and currently with s 25 of the LCA?

(c) That the Lotteries Commission has been during 13/14 and is now in compliance with the LCA more generally?

Answer:

(a) Yes.

(b) Yes.

(c) Treasury's role does not encompass monitoring whether the Lotteries Commission is compliant with its own legislation.
