

**LEGISLATIVE COUNCIL 2021-22 BUDGET ESTIMATES
DEPARTMENT OF TREASURY**

SUPPLEMENTARY B1

Hon Dr STEVE THOMAS: You do it when you have the huge cash surplus. I fully understand why. That is okay. I suspect we might have done the same thing, and I would expect you to be chasing me in the reverse situation.

Given our short time frame, can I jump to page 241 of budget paper No 3—"total public sector cash flows". Midway down the page under "Cash flows from investing activities", cash received for liquidity purposes is around \$8 billion a year, except for the 2019–20 actual which was \$12 billion. Can you give us a quick run-down on where the money is coming from, going to and how it is being acquitted?

Hon STEPHEN DAWSON: I will ask the Under Treasurer to answer this one.

Mr BARNES: I do not have a detailed reconciliation in front of me, but one material reason for why that 2019–20 figure is so much higher at \$12 billion, as you pointed out, is that 2019–20 included \$1.4 billion in proceeds from the Landgate partial commercialisation. It was obviously a one-off in that year, so that drops out in subsequent years. That is a reason. As I said, I do not have a full reconciliation off the top of my head.

Hon Dr STEVE THOMAS: Minister, might it be possible to get some additional information on this line item in its generalities, and then around the specifics about why it is varied? I am interested to know how it is accounted for, where it has come from and where it is going to.

Hon STEPHEN DAWSON: I am happy for Treasury to provide you with some further information.

Answer:

Total public sector cash receipts from financial asset investment activities for liquidity purposes reflect proceeds from the sale of income-bearing investment classes. Significant liquid asset holdings are managed across the public sector with these transactions dominated by:

- the Insurance Commission of Western Australia (ICWA), which holds substantial reserves in various investment classes that are maintained to meet future insurance claims; and
- the Western Australian Treasury Corporation (WATC), which as the State's central borrowing authority, holds a significant liquidity portfolio as part of its debt management responsibilities.

Both ICWA and WATC actively trade financial asset investments to maximise these returns. Other agencies also invest in financial assets as part of the public sector's cash management practices but at much lower levels and with less focus on trading returns (typically accounting for between \$500 million and \$700 million of the receipts from liquidity investment activity).

As shown in BP3, liquidity investment receipts in 2019-20 (\$12 billion) are higher than the estimated outturn for 2020-21 and each of the outyears. The table below shows that the 2019-20 outturn was also higher than the outcome for 2018-19 (\$6.5 billion). This reflects the level of investment activity by ICWA and WATC in 2019-20.

Premier's initials



- ICWA actively manages its investment allocations and from time to time will, dependant on market conditions, make tactical asset allocations to rebalance its portfolio. During 2019-20 and in order to maintain diversification within the portfolio, ICWA decided to increase its fixed interest assets (including Global and Australian Fixed Interest asset classes) by engaging fixed interest investments managers and allocating funds to these managers from other asset classes. During the year as whole, ICWA took on three new investment managers and terminated one, as well as rebalancing investments within existing investment managers. The portfolio rebalancing along with the increased activity (due to increased volatility in the market) within the investment mandates by the portfolio managers resulted in the unusually high cash flow for both sale of investments and purchase of investments for the 2019-20 financial year.
- For WATC, initial market disruptions in March 2020 meant that global bond markets did not operate effectively, making it difficult for WATC and other issuers to raise funds across the traditional maturity profile (e.g. through longer dated debt out to 10 years). To ensure that Western Australia had access cash over this period of disruption, WATC actively sought to raise short term debt. As global markets stabilised with the intervention of central banks, including the Reserve Bank of Australia supporting domestic bond markets, WATC replaced this short term debt with normal longer dated bonds. These transactions substantially lifted both investing receipts and payments in 2019-20.

The outyear forecasts for liquidity investing activities are updated in Budgets and Mid-year Reviews, and are based on five-year moving averages which assume a return to more typical levels on investment activity.

Table 1

**TOTAL PUBLIC SECTOR RECEIPTS FROM THE SALE OF FINANCIAL ASSETS
HELD FOR LIQUIDITY PURPOSES**

2021-22 Budget and 2018-19 Annual Report on State Finances

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Actual	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Actual	Estimate	Estimate	Estimate	Estimate
<i>Receipts</i>							
Insurance Commission of Western Australia	1,463	4,999	2,154	2,262	2,375	2,494	2,618
Western Australian Treasury Corporation	4,361	6,490	5,000	5,000	5,000	5,000	5,000
All other	672	555	675	690	686	677	590
Total	6,495	12,044	7,829	7,951	8,061	8,170	8,208

Reference was made during the Hearing to the one-off proceeds from the partial commercialisation of Landgate in 2019-20. The \$1.41 billion receipt from this transaction was recorded as part of sales of non-financial assets which are recorded separately from receipts from financial asset transactions in the cash flow statement.

Premier's initials

