Question No A5 - *Hon Ljiljanna Ravlich requested any correspondence between the agency and DTF on the process of drawdown to SPA, timing when funds should be drawn down to SPA.*

Answer:

The emails below were received as information from which documents seeking advice from the SSO have been drafted and a modelling framework developed for draw down mechanisms.

From: Hallam, Anton [mailto:Anton.Hallam@dtf.wa.gov.au]
Sent: Wednesday, 26 May 2010 4:37 PM
To: Linda Leonard; Brett Sabien; Sandy Kerr
Cc: Yann Poule; Wee, William; Duca, Adrian; Sarich, Ivan; Porter, Shane; Barbaro, Michael; Colin Slattery
Subject: Disbursements for Royalties for Regions - future year payments into the SPA

Hello all. To assist in your formulation of options for RfR disbursements to your Minister, here are some options for disbursements and potential issues with those options:

1. Full appropriation into the SPA on 1 July each year - This is probably the Minister for Regional Development's preferred option, as it would maximise the interest receipt. However, given that the State would likely have to borrow to make the payments, as royalties receipts occur throughout the year, and borrow at a higher rate than the funds would be invested at, this would be strongly resisted from a fiscal perspective.

2. Payments only made to SPA when disbursements are required - This would be the preferred approach from a fiscal perspective, and would accord with the general approach of disbursements for other agencies (i.e. they receive the funds for a purpose, and not generally to just increase cash balances and then request carryovers). Under this option, any funds within a year that weren't disbursed would be paid to the SPA a few days out from year end. This is what happened for 2008/09 and would be the preferred DTF approach, so that disbursements are treated no different for RfR than for any other program. However, this obviously produces less interest to the Fund.

These views represent the polar positions for disbursements. Some intermediate positions are described below:

1. Twelve equal payments over the year - This has the advantage of being simple to implement, but obviously does not exactly coincide with actual royalties receipts.

2. Twelve payments to match the historical royalties pattern - This would be only slightly more complicated than the above, but is likely to deliver less funds to the account at the start of the year, as can be seen below:

This is the pattern for 2008-09

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Royalty Income (% of annual collections)	6%	1%	16%	7%	1%	23%	5%	2%	18%	4%	2%	15%

3. Another payment profile could be negotiated. For example, the below might be a couple of examples of payment schedules that could work.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Suggestion 1	5%	5%	15%	5%	5%	15%	5%	5%	15%	5%	5%	15%
Suggestion 2	7%	3%	15%	7%	3%	15%	7%	3%	15%	7%	3%	15%

4. Quarterly payments of 25% in line with normal quarterly financials - This would be administratively simpler than the above and would ensure that the royalties had been received and therefore borrowing would not normally be necessarily. As stated below, any major payments early in the year could be funded through cash balance, or if necessary through an extraordinary disbursement before the quarterly payment, and balanced off within that quarter's disbursement. On balance, this is the preferred compromise option from our perspective.

In all scenarios, the issue is to determine the balance between ensuring adequate funding for early disbursements, the earning of interest and minimising unintended fiscal consequences. Given that on present estimates the SPA will have substantial cash balances at year end, the problem of early disbursements could be accommodated through the use of these balances early in the year (although it must be recognised that if funding has been drawn into the SPA as recurrent, it must be used as recurrent, and same for capital). This cash balance issue is something else that will need to be tracked, as I do not believe that an adequate system for tracking this is in place, and as the Fund moves into future years, it will become more and more difficult to unravel.

It will also need to be decided, if we were to use a monthly profile, when in each month the payments would be received (start of month, end of month, middle of month etc). With the quarterly option, it would be at the end of the quarter to line up with normal quarterly reporting.

Kind regards

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From: Hallam, Anton [mailto:Anton.Hallam@dtf.wa.gov.au]
Sent: Tuesday, 23 March 2010 11:25 AM
To: Michael Rowe; Colin Slattery
Cc: Wee, William; Kaitse, Chris; Santa Maria, Colin; Netolicky, Josef; Duca, Adrian; Porter, Shane; Sarich, Ivan; Barbaro, Michael; Memeo, Frank; Linda Leonard
Subject: RfR - Interest and disbursements to the RfR Fund

Hello Michael and Colin. As promised, here is some information on how interest is calculated for interest bearing Special Purpose Accounts, such as the Royalties for Regions Fund. If you

want more information on this, please call Colin Santa-Maria in our Accounting Operations team, on 9222 9701.
Concerning the timing of disbursements into the SPA, as discussed yesterday, the position of putting all funding for a year into the Fund on 1 July faces two problems:

1. Royalties are received over the course of a year, and so the funds are not available at the beginning of the year;
2. Since these funds are not available, the State would find itself in a position of borrowing at a relatively high rate of interest, and then depositing the funding into a Fund that would earn a lower rate of interest, which is not a good outcome from a General Government perspective.

Therefore, at officer level, we have discussed and would favour to continue the "payment into the SPA when agencies require funds" approach. Potentially, a compromise position may be to arrange some sort of monthly/quarterly payment into the SPA of a proportion of the funds, with the option to bring forward disbursements if urgent payments need to be made to agencies. This would allow both for the accumulation of some interest, as well as addressing the concern of not having adequate funds available for projects earlier in the year. The exact timing and rate of these disbursements would be a matter for further discussion, as there are a number of possible options (e.g. divide the budgeted 25% of royalties into 12 and pay even amounts each month, align payments to the SPA to actual revenue receipts monthly etc).

Concerning our internal systems to do the calculations and any reporting relating to the accumulation of interest, my conversations with the Accounting Operations and other groups indicate that we will be able to handle the administrative tasks very quickly (within a few days of proclamation/agreement between the Minister and Treasurer on disbursements etc).

Please let me know if you have any further questions.

Kind regards

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