

7/8/19

LEGISLATIVE COUNCIL STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

2019-20 BUDGET ESTIMATES HEARINGS – ADDITIONAL QUESTIONS



Department of Treasury

The Committee asked:

- 1) We refer to the Minister for Regional Development; Agriculture and Food's answer to the Hon Colin de Grussa MLC's question prior to hearing no.5 to the Department of Primary Industries and Regional Development, and ask if the error has an impact on the agency's financial statements, what are the implications for the whole of government accounts?

Answer: The Department of Primary Industries and Regional Development (DPIRD) has advised that the error is related to a misclassification of grants against the category "Agricultural Research Grant Allocations" within the Grants and Subsidies Table. The amounts reflected in 2021-22 and 2022-23 will be reclassified to more accurately reflect the purpose of the grant expenditure within the Detailed Controlled Grants and Subsidies Table.

DPIRD has advised that the total value of grants and subsidies is correct, and as such the proposed changes will not have any financial impact on the DPIRD's Financial Statements, or at a whole of government level.

- 2) We refer to your hearing on 19 June 2019 at page 5 of the uncorrected transcript, on providing full financial statements for government trading enterprises, and ask will you also provide a similar level of information for:

- a) entities not disclosed in Budget Paper No. 2; and

Answer: No. The structure and content of Budget Paper No. 2 is a reflection of its purpose as the explanatory information in support of the Appropriation Bills that authorise supply to appropriation-funded agencies in the Budget year. Agencies that do not receive an appropriation and do not have an asset investment program will not appear in Budget Paper No. 2.

- b) other entities in Budget Paper No. 2 that only show their asset investment program?

Answer: No, it is not intended for changes to be made to other agency Budget Paper No. 2 statements. Agencies that do not receive an appropriation, but have asset investment spending in the forward estimates period, will continue to disclose their asset investment programs.

- 3) How do special purpose accounts and their use affect the whole-of-government financial accounts?

Answer: Special Purpose Accounts (SPAs) provide funding for particular initiatives and programs, with SPA balances (and transactions in and out of the accounts) forming part of the overall whole-of-government consolidated financial outcomes reported in the Budget papers and other financial publications.

As such, SPA balances are treated the same as any cash asset (agency operating account, accounts with banks and other institutions, etc.) with each dollar that is spent from these SPA balances increasing net debt (and reducing the net operating balance if the spending is for recurrent purposes) by the same amount. In this way, these SPA balances are no different from other funding sources, including new borrowings.

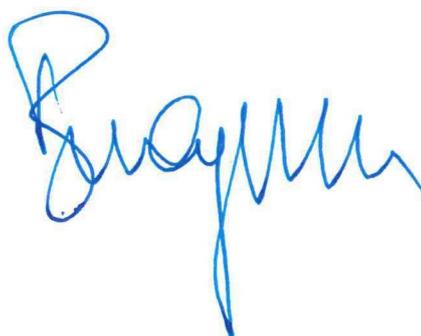
4) What determines whether a special purpose account is disclosed in:

a) the Appendices of Budget Paper No.3 or the Government Mid-year Financial Projections Statement; and

Answer: Special Purpose Account (SPA) Appendices in Budget Paper No. 3 and the Mid-year Review report the major/material SPAs in existence at the time of publication or where a SPA is considered to be of particular interest. SPAs are also reported in the Annual Report on State Finances and Quarterly Financial Results Reports. The composition of SPAs reported in the State's major financial publications are reviewed and updated regularly.

b) the agency statements in Budget Paper No. 2?

Answer: The disclosure of SPAs in Budget Paper No. 2 statements is at the discretion of agencies. Treasury advises agencies that, as a general rule, SPAs that receive appropriation funding from the Consolidated Account should be disclosed. SPAs with nil or immaterial balances/transactions are generally not reported. Agencies may also choose to disclose SPAs where funding is received from a particular industry or body.

A handwritten signature in blue ink, appearing to be 'B. J. ...', is located at the bottom center of the page.

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2019-20 BUDGET ESTIMATES HEARINGS - ADDITIONAL QUESTIONS

Department of Treasury

Hon Martin Aldridge MLC asked:

- 1) I refer to the \$12.375 million the State Government received for the sale of 5666sqm of land to Fabcot Pty Ltd, and I ask:
- a) Will this money be allocated to any specific project/s;
Answer: No
 - b) If yes to a, which project/s;
Answer: n/a
 - c) If no to a, what will the revenue be used for; and
Answer: Revenue from the Government's land asset sales program is returned to the consolidated account for use across government.
 - d) Will any of the money be spend in regional Western Australia?
Answer: As revenues are returned to the Consolidated Account, it is possible that some or all of the funds may be spent in regional Western Australia. This is the case with revenues received from the Government's land sales program for land sold in all areas of the State.
- 2) I refer to Page 285 of Budget Paper 3 and in relation to borrowings by Local Government Authorities and I ask:
- a) What is the total borrowings of Local Government;
Answer: As at 30 June 2019 the total borrowings of Local Government Authorities (LGAs) from the Western Australian Treasury Corporation (WATC) was \$613.8 million.

LGA's are also able to borrow from Banks. However, due to the lower cost of borrowings through WATC, total amounts owing to banks is likely to be materially less than the WATC borrowings. No such aggregate is readily available, although LGAs are required to declare all borrowings and the relevant counterparty(s) in their annual report.
 - b) Please identify the current borrowing amount by Local Government;
Answer: The amount of borrowings by individual LGAs varies considerably and is typically influenced by the size of the Local Government in terms of population and service provision required.

As at 30 June 2019, 127 LGAs had borrowings outstanding with WATC, the smallest amount for an individual LGA being approximately \$20,000 and the largest being approximately \$61 million. Borrowings by individual local governments are declared in their annual reports.



- c) What is the interest rate paid by Local Government and how is this benchmarked;
Answer: LGA's typically borrow using long term fixed rate loans to fund specific projects as approved through their annual budget process. The interest rate charged by WATC is determined on the day the loan is drawn, and is based directly off the prevailing interest rates that WA Government Bonds trade at on the Australian Debt Market. An administrative margin is also added to the interest rate to cover WATC's costs in providing this service.

Current State Government policy is to charge a Loan Guarantee Fee of 0.7% p.a. on all LGA borrowings outstanding with WATC, which WATC collects on a semi-annual basis on behalf of Government.

By way of illustration, the all-in cost for a 10 year fixed rate amortising loan drawn on 30 June 2019 for a LGA borrowing from WATC would have been 2.46% p.a.

- d) How does the WA Treasury Corporation (WATC) assess borrowing capacity for Local Government;
Answer: WATC undertakes an individual credit assessment for each LGA loan application. The credit assessment is based on a WATC proprietary model that assesses both the individual business risk of each LGA and their likely capacity to service loan repayments into the future.
- e) What types of assets can Local Government use to securitise borrowings;
Answer: Under the *Local Government Act 1995*, with reference to clause 6.21(2), an LGA can only provide security over its 'General Funds' – mainly comprising rates revenue and other regular income streams (e.g. operating grants). WATC formally takes a charge over a LGA's funds through execution of a Master Lending Agreement and registration of the security interest in accordance with the Australian Government's Personal Property Securities Act.
- f) Does the WATC take an interest in the purpose for which a Local Government seeks borrowings; and
Answer: WATC requires that all LGA loan applications have complied with the relevant provisions of the Local Government Act, namely:

6.20. Power to borrow

(2) Where, in any financial year, a local government proposes to exercise a power under subsection (1) (**power to borrow**) and details of that proposal have not been included in the annual budget for that financial year —

- (a) unless the proposal is of a prescribed kind, the local government must give one month's local public notice of the proposal; and
- (b) the resolution to exercise that power is to be by absolute majority.

(4) A local government is not required to give local public notice under subsection (3) —

- (a) where the change of purpose has been disclosed in the annual budget of the local government for the relevant financial year; or
- (b) in such other circumstances as are prescribed.

- g) Are there restrictions on what Local Government can fund with borrowings?
Answer: Refer answer f).

