

STATEMENT OF CORPORATE INTENT 2022/23

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Introduction

Western Australian Treasury Corporation (WATC) is the State's central financial services provider, working with its public sector clients to achieve sound financial outcomes. WATC's principal activities involve funding and debt management, asset and investment management, financial advisory services, financial risk management and treasury management services and systems.

The focus of this document is to outline WATC's activities and strategies for 2022/23, with consideration given to its vision, values, environmental factors and stakeholder interests. This document was also developed in line with the government goals of financial and economic responsibility, and results-based service delivery.

This Statement of Corporate Intent (SCI) outlines the scope of WATC's activities in fulfilling its functions, objectives, dividend and accounting policies and performance targets for the financial year beginning 1 July 2022. WATC's Board of Directors (the Board) has prepared the statement in accordance with Section 16I (1) of the *Western Australian Treasury Corporation Act 1986*.

The COVID-19 pandemic has impacted significantly on financial markets and the Global, Australian and Western Australian economies.

For WATC, these impacts are felt principally via adjustments to the States borrowing requirements, as the Government's budget position evolves through the pandemic period; and through the increased volatility and risk of dislocation in financial markets. This volatile and uncertain market environment will require WATC to be more flexible in delivering the borrowing program than would be the case in normal market conditions.

Notwithstanding the above, and the challenges associated with managing business operations in a COVID environment, WATC's underlying corporate intent for 2022/23 remains broadly unchanged from the pre-pandemic period.

Corporate Governance

Legislative Framework

WATC was established on 1 July 1986 under the *Western Australian Treasury Corporation Act 1986* (the Act). WATC is governed by a Board of Directors that is responsible for the performance of WATC's functions under the Act.

Board of Directors

In order to ensure that WATC carries out its functions in the best interests of the State, its clients and other stakeholders, the Board sets the strategic direction of WATC (with the agreement of the Minister) and establishes the policies and principles under which WATC operates.

The corporate governance processes established by the Board ensure that it is able to fulfil its statutory obligations, guide the affairs of WATC and oversee its performance.

The Board relies on, and holds to account, the Chief Executive Officer for the operational management of WATC and the implementation of the strategic direction.

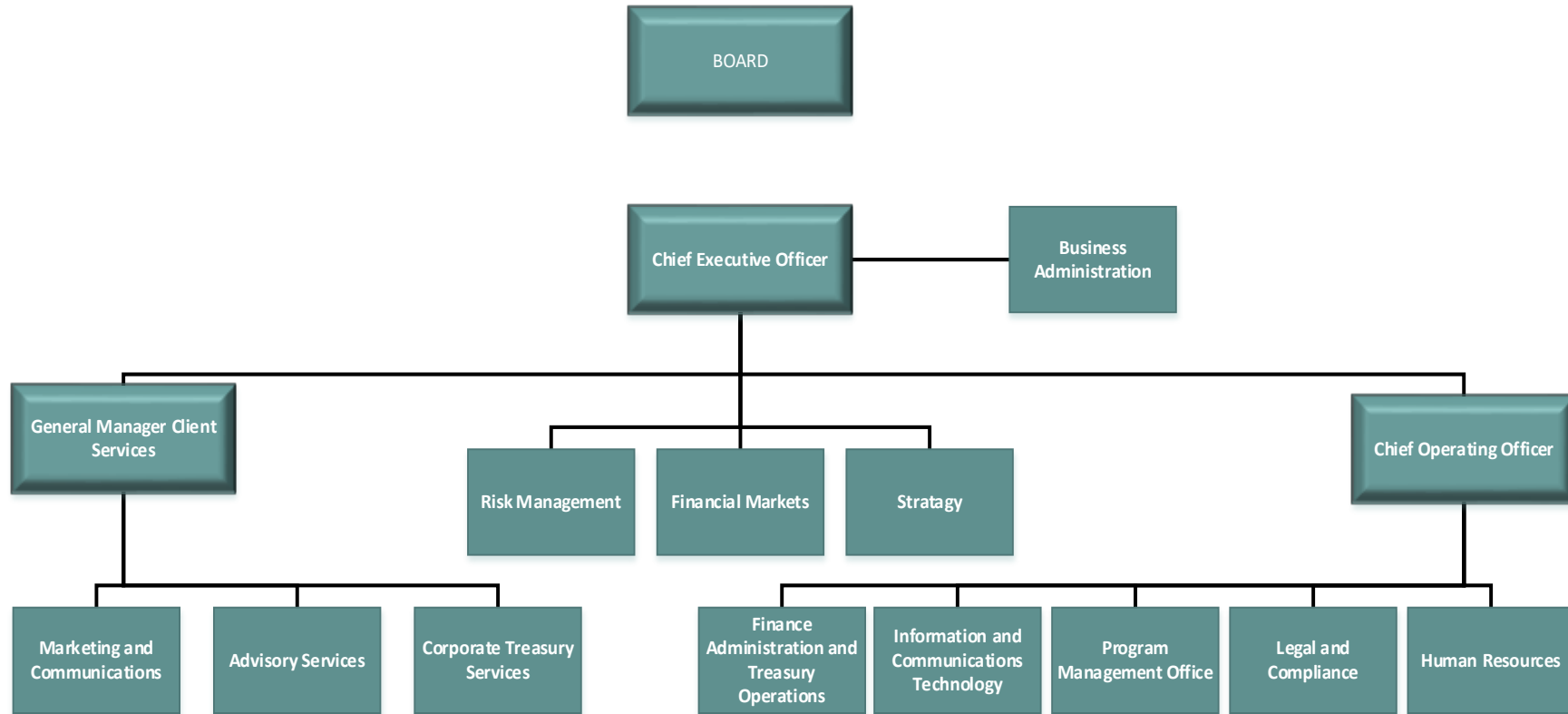
Board Composition

The membership of the Board is determined in accordance with Section 5B of the Act and comprises:

- the Under Treasurer as Chairperson;
- a Treasury officer nominated by the Under Treasurer from time to time as the Deputy Chairperson;
- the Chief Executive Officer or Acting Chief Executive Officer of WATC; and
- up to three other persons with relevant commercial or financial experience appointed by the Minister (appointed directors).

An appointed director may hold office for a term not exceeding three years, as is specified in the instrument of appointment, but may be reappointed from time to time.

Organisational Structure



Vision and Values

Vision

To be recognised as the best at providing financial solutions for the benefit of the Western Australian public sector.

Values

WATC adheres to transacting all business in accordance with its corporate values of:

Integrity

We are open, honest and accountable. We adhere to the highest professional and ethical standards. We honour our promises.

Partnership

We work collaboratively with our clients and colleagues towards achieving successful outcomes.

Adaptability

We challenge ourselves to think creatively and to continuously improve.

Achievement

We are engaged and focused on delivering valued outcomes for WA.

Leadership

We use our knowledge & experience to contribute to the long term benefit of WA.

Strategic Focus

In fulfilling its role as the central financial services provider for the State, WATC's strategic focus for 2022/23 centres on the following key strategic objectives:

- Provision of high quality, cost-effective products and services to the Western Australian public sector.
- Maintain ready access to domestic and international capital markets to ensure funds are raised to finance client borrowing needs.
- Optimise the performance of WATC in accordance with the WATC Act and the risk appetite of WATC's Board.

Nature and Scope of WATC's Functions under the Act

Western Australian Public Sector Product and Service Offerings

Lending Products and Services

WATC lends to clients to meet their financing requirements, which include funding for new works, refinancing existing debt and financing for liquidity purposes. A range of flexible lending products, covering a wide maturity spectrum and offering various repayment options, is available to meet client needs. WATC systematically reviews its lending product and service offerings to ensure alignment with client requirements.

WATC's new lending to clients in 2022/23 is expected to total \$1.5 billion. Estimated lending programs are subject to change depending on government initiatives adopted after the formulation of this plan.

Financial Advisory Services

WATC provides the Western Australian public sector with a range of corporate and financial risk management advisory services to facilitate improved financial decision-making. WATC's goal is to work collaboratively with clients to enhance the corporate and financial risk management analyses undertaken on public sector projects. WATC endeavours to integrate its expertise and experience with the unique business knowledge of its clients to deliver superior outcomes for clients.

Foreign Exchange Services

WATC provides a broad range of foreign exchange solutions for its Western Australian public sector clients. This includes assisting public sector agencies with the management of foreign exchange risk in accordance with Treasurer's Instruction 826. WATC assists clients with the identification and quantification of foreign currency exposures. WATC, in partnership with clients, designs and executes currency management strategies to manage clients' foreign exchange exposures.

In addition, WATC provides full ongoing support through the provision of cash flow projections, audit confirmations, position reporting and market valuations of outstanding transactions.

Asset and Investment Management

WATC offers a range of asset and investment management products and services to clients. WATC undertakes research and development of investment product opportunities to assist clients in managing their short to medium-term investment needs.

WATC, via a Service Level Agreement with the Department of Treasury, is responsible for the investment and management of the Public Bank Account and the Future Fund.

Funding and Debt Management

Borrowing Strategy – Domestic

WATC issues fixed interest inscribed stock in a manner that produces cost savings for the State. This is accomplished by selling inscribed stock in a select number of maturities referred to as benchmark bonds. This entails the initial launch, typically of between \$1.0-\$1.5 billion and progressive issuance into select lines of benchmark bonds with the intention of building up sufficient volumes on issue in each to satisfy investors' requirements for liquidity.

WATC has a fixed income market making dealer panel comprised of leading financial institutions through which it places its benchmark bonds and which conducts secondary market making activities in the domestic market. WATC undertakes ongoing performance assessment and periodically reviews the composition of the dealer panel and may add or remove institutions from the dealer panel throughout the duration of this plan.

The issuance of highly liquid state government-guaranteed benchmark bonds combined with the price making provided by the dealer panel in secondary markets maintains the attractive pricing status that Western Australia enjoys, along with the other state central borrowing authorities, over corporate issuers and this ensures the cheapest possible cost for long-term domestic debt.

WATC will also issue Floating Rate Notes (FRNs) as part of its primary funding program. Demand for FRNs from bank balance sheets is expected to continue.

In addition, retail investors seeking the security of a government-guaranteed investment are able to purchase fixed interest inscribed stock from WATC. Retail investors include people who are requested by the Australian Government Department of Immigration and Border Protection to purchase a designated investment in order to complete their residency application under the Business Innovation and Investment Program.

The retail sector is a secondary source of funds for WATC.

WATC will continue to monitor the market to undertake other forms of borrowings, including indexed bond issues, which meet its funding requirements.

Borrowing Strategy – Overseas

WATC's objectives in accessing overseas markets are to:

- fund its borrowing program where it is able to do so at rates equivalent to or better than domestic rates after hedging any foreign currency exposure;
- meet the foreign currency financing requirements of its clients;
- undertake issues with specific structures or terms to meet particular portfolio or client requirements; and
- diversify its investor base.

WATC's strategy in meeting these objectives is to tap overseas markets on an opportunistic basis through bond issues and its US\$2,000 million multi-currency Euro Medium Term Note (EMTN) Program.

WATC's long-term overseas borrowings are used to provide both fixed and floating rate funding for its portfolio. However, as WATC's policy is not to take any foreign currency exposure, all foreign currency obligations are either directly lent to clients or swapped into Australian dollars.

The EMTN program provides the documentation infrastructure for WATC to respond quickly to market opportunities in a wide range of currencies. Maturities can range from one month to 30 years.

In addition, WATC has lodged Shelf Registration Statements with the Japanese regulatory authorities for primary and secondary distribution of its securities in Japan. This means that WATC can be more responsive to offers for bond and EMTN issues that may be sold to investors in Japan.

WATC will continue to monitor other markets for opportunities to undertake borrowings which meet its overseas borrowing objectives.

WATC has positioned itself to readily access the cheapest source of short-term borrowings in overseas markets through its US\$6,000 million multi-currency Euro Commercial Paper Program.

Investor Marketing Strategy

In sourcing its clients' loan funds, WATC will borrow from international and domestic capital markets. In support of this, WATC undertakes an annual marketing program, consisting of engagement with domestic and overseas investors with the objective to:

- ensure ready access to funding from domestic and overseas investors to meet its borrowing and liquidity management program;
- ensure that WATC is able to borrow at competitive margins to the other equivalently rated State treasury corporations with similar sized borrowing programs;
- continue to maintain its current investors base by keeping investors up to date with information on WATC's borrowing activities, the Western Australian economy and state government finances and credit standing; and
- seek to diversify its investor base by introducing potential new investors to the Western Australian economic story, the State and Federal relationship and informing them of WATC's activities in financial markets.

During 2020 and 2021 these engagements moved to an online platform, and this is expected to continue into 2022 although a return to face to face engagements is of high importance once conditions allow for safe travel.

Balance Sheet Structure

A key balance sheet management goal for WATC is to achieve debt maturing within 12 months of less than 20% of its total debt portfolio and to maintain a liquidity coverage ratio of 100% of debt maturing within 12 months as at 30 June each year.

The achievement of this goal remains an important part of the contribution WATC can make to the State's credit worthiness. It requires an ongoing assessment of the costs and benefits of the strategy, in conjunction with the Department of Treasury, who manage the other components of the ratings score.

In sourcing its clients' loan funds, WATC will borrow from domestic and international capital markets. Based on estimated new lending forecasts, WATC's expected borrowing activity is:

	\$ billion			
Estimated Outstanding Debt at 30 June 2022¹	51.7			
Estimated Borrowing Program 2022/23				
	\$ billion (Range)	\$ billion (Estimate)	\$ billion (Estimate)	\$ billion (Estimate)
Estimated New Lending²:			1.5	
Proposed Debt Repayment			-1.2	
Net new funding			<u>0.3</u>	
Projected Maturities³:				
Domestic Long-Term	2.5 to 3.5	3.0		
Domestic Short-Term	2.5 to 3.5	3.0		
Floating Rate Note	1.5 to 2.5	1.8		
Overseas Commercial Paper	0.0 to 1.0	0.5	8.3	
Total Borrowing Program			<u>8.6</u>	
Proposed Borrowing⁴:				
Domestic Long-Term	3.5 to 4.5	4.1		
Domestic Short-Term	2.5 to 3.5	3.0		
Floating Rate Notes	0.5 to 1.5	1.0		
Overseas Commercial Paper	0.0 to 0.5	0.5		
Overseas Bonds/Medium Term Notes	0.0 to 1.0	-		
			<u>8.6</u>	
Projected Borrowings Outstanding				<u>52.1</u>

Notes:

1. Face Value of Projected Outstanding Debt at 30th June 2022, excludes collateral held.

2. Lending Program estimates as per 2022/23 WA State Budget, May 2022.

3. Domestic Long-Term, Domestic Short-Term and Overseas Commercial Paper maturities reflect projected maturities in the year to 30 June. Totals may not add due to rounding.

4. The sourcing of WATC's funding is subject to conditions in the various markets and the market mix may be amended as necessary each year to meet WATC's pricing, liquidity and lending targets.

Financial Risk Management

WATC defines risk as:

“The uncertainty of an event occurring that could have an impact on the achievement of its objectives.”

These are the key elements within WATC’s risk management framework:

- Market Risk
- Credit Risk
- Liquidity and Funding Risk
- Operational Risk
- Reputational Risk
- Strategic Risk.

WATC’s risk management policy objectives are to:

- ensure risk management is adopted throughout WATC as a prudent management practice;
- ensure that all employees are made aware of the need to manage risk and to promote a culture of participation in that process;
- protect WATC from adverse incidents, to reduce its exposure to loss and to mitigate and control loss should it occur;
- ensure the ongoing, unimpeded capacity of WATC to fulfil its vision, perform its key functions, meet its objectives and serve its customers;
- reduce the costs of risk to both WATC and the Western Australian State Government; and
- adhere to relevant and appropriate risk management standards and comply with WATC-specific legislation and other relevant state government requirements.

The Board has overall responsibility for WATC’s risk management framework and policies, including reputational and strategic risk. The Board has delegated day-to-day responsibility to the CEO and established an Asset and Liability Committee that develops policies for market, credit, liquidity and funding, and operational risk.

WATC also maintains a Risk Management Branch which has an independent monitoring and risk management oversight/quality assurance brief with respect to all aspects of risk.

Key Performance Indicators

In order to monitor its performance in achieving its objectives, WATC has identified its key performance indicators and targets. These targets are challenging and, when attained, ensure real benefits to WATC, its clients and stakeholders. WATC’s key performance indicators and targets for 2020/21 are:

Estimated Interest Rate Savings

The aim of this measure is to estimate the benefits derived from centralising the State’s debt portfolio management and borrowing program within WATC.

In order to measure the success of WATC in maintaining breadth and depth in its debt paper and estimate the flow on benefit to its lending clients, WATC benchmarks its funding costs against selected Australian corporate bond market issuers. Specifically, WATC estimates the savings to clients borrowing from WATC compared to the estimated cost to clients of borrowing in the corporate bond market issuers with a minimum credit rating of AA+.

Guarantee fees charged by the State are excluded from the cost of borrowing from WATC as it is assumed that they will also be charged on borrowings undertaken by clients in their own name.

Target: 2022/23 Savings > 0.00%

Client Satisfaction

A range of mechanisms including independent surveys and direct client feedback following specific engagements is used for this purpose. Client satisfaction performance outcomes are reported annually.

Target: 2022/23 90% Client Satisfaction

WATC continues to target an aspirational client satisfaction level of 100%.

Administration Cost Ratio

WATC monitors its administrative efficiency and the cost effectiveness in funding client borrowing requirements by measuring its Administration Cost Ratio. Clients are able to benefit from the economies of scale that result from the centralised borrowing arrangements of WATC. This concept enables WATC to reduce the administration cost per dollar of lending to clients.

The economies of scale achieved by WATC generate savings to the client that would not be available to individual clients attempting to fund their borrowing requirements directly from the financial market. In general, the level of specialisation and expertise provided by WATC would not be cost effective for an individual client to maintain.

The Administration Cost Ratio is a measure of the average administrative on-cost that must be borne by WATC's clients. It is defined as the ratio of net administration expense to average loan funds outstanding, expressed as a percentage.

$$\text{Administration Cost Ratio (\%)} = \frac{\text{Net Administration Expense}}{\text{Average Lending Assets}} \times \frac{100}{1}$$

Net Administration Expense is defined as total administration expenses less non-interest revenue. Average Lending Assets is defined as the average of the opening and closing book value of loans to clients for the period.

Target: 2022/23 Administration Cost Ratio < 0.05%

Pre-tax Profit

Target: 2022/23 WATC's estimated Pre-tax Profit for 2022/23 is \$31.9 million

Unlike private sector financial institutions, it is not the primary objective of WATC to maximise pre-tax profit, but rather to maintain an adequate profit while providing cost-effective financial products and services to the State and Western Australian public sector agencies. The estimated pre-tax profit has been determined after incorporating the Government Trading Enterprise Efficiency Dividends announced in previous State Budgets by reducing items of discretionary operating expenditure.

Staff Engagement Rating

The success of any organisation depends on staff members who enjoy their jobs and feel rewarded for their efforts. WATC strives to create an environment where employees are motivated to do their jobs to the best of their abilities.

Target: 2022/23 Staff Engagement Rating > 65%

Statement of Accounting Policies

The following accounting policies are adopted in the preparation of the financial statements under Australian Accounting Standards.

a) General Statement

- (i) WATC is a not-for-profit reporting entity that prepares general purpose financial statements in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording.

The Financial Management Act and the Treasurer's Instructions are legislative provisions that govern the preparation of financial statements and take precedence over Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

Where modification is required and has a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

- (ii) The financial statements are presented in Australian dollars and all values are rounded to the nearest million dollars unless otherwise stated.
- (iii) The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.

b) Basis of Preparation

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention except as noted below.

WATC maintains Investments, Loans to Authorities and Borrowings to fulfil its functions and has elected to designate these Financial Assets and Financial Liabilities as fair value through profit or loss, consistent with the provisions of AASB 139 'Financial Instruments: Recognition and Measurement'. WATC satisfies the eligibility criteria for this election as it manages its business daily on a fair value basis. In accordance with AASB 139, all derivative financial instruments are also accounted for on a fair value basis through profit or loss. By nature, the market quoted rates used for valuation of financial assets and financial liabilities include an allowance for credit risk.

Critical accounting judgements and estimates

The judgements that have been made in the process of applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relate to the use of mid prices instead of bid-offer prices for the measurement of Investments, Loans to Authorities and Borrowings. WATC aims to minimise its exposure to risk in these financial assets and liabilities. To the extent that the risk positions in these items are offset, mid prices are used with bid-offer prices being applied to any net open position, if WATC had them.

c) Revenue

Revenue is recognised and measured at the fair value of consideration received or receivable. Revenue is recognised as shown below.

Fee Income

Fee Income in respect of services provided is recognised in the period in which the service is provided.

Interest

Interest revenue is recognised as it accrues using the effective interest method and includes items of a similar nature realised in managing the relevant portfolios. Any realised gains or losses on financial assets are also recognised as interest.

d) Plant and Equipment

Items of Plant and Equipment costing \$5,000 or more are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of Plant and Equipment costing less than \$5,000 are expensed direct to the Statement of Comprehensive Income (other than where they form part of a group of similar items which are significant in total).

All items of Plant and Equipment are initially recognised at cost. After initial recognition, Plant and Equipment are stated at cost less any accumulated depreciation and any impairment in value. Depreciation is calculated based on their estimated useful lives using the straight line method. The estimated useful lives for each class of depreciable asset are as follows:

Computer Equipment 3-5 years

Other Equipment 5-10 years

Impairment

The carrying values of Plant and Equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of Plant and Equipment is the greater of fair value less costs to sell and the depreciated replacement cost.

Impairment losses are recognised in the Statement of Comprehensive Income.

e) Intangible Assets

Computer software is the only Intangible Asset which WATC has in its financial statements. The cost of utilising the assets is expensed (amortised) over their useful lives.

Intangible assets acquired separately are capitalised at cost as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these assets are assessed to be finite. Intangible Assets are amortised over a period of three years.

Intangible Assets are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

f) Investments

WATC classifies its investments as financial assets at fair value through profit or loss. WATC does not hold any investments that are classified as held to maturity or available for sale.

Investments are initially recognised at fair value on trade date and subsequently measured at fair value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Statement of Comprehensive Income. Fair values are derived using market quoted midpoint prices to the extent that investments are held in offsetting risk positions, otherwise bid prices are applied. Commonwealth and State Government investments are held for portfolio management purposes. Whilst these investments generally have maturity dates greater than 12 months, they are used in the ordinary course of business to economically hedge WATC's benchmark bonds and are therefore held in the expectation of being realised within twelve months.

g) Loans to Authorities

Loans to Authorities are initially recognised at fair value on trade date and subsequently measured at fair value applicable at reporting date and are recorded as assets in the Statement of Financial Position. Unrealised gains or losses arising from this policy are brought to account in the Statement of Comprehensive Income. Fair values are derived using market quoted midpoint prices to the extent that loans to authorities are held in offsetting risk positions, otherwise bid prices are applied. In normal circumstances, upon maturity, loans to authorities are either rolled over or refinanced.

h) Borrowings

Borrowings are initially recognised at fair value on trade date and subsequently measured at the fair value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Statement of Comprehensive Income. Fair values are derived using market quoted midpoint prices to the extent that borrowings are held in offsetting risk positions, otherwise ask prices are applied. In normal circumstances, maturities of borrowings are either rolled over or refinanced. Borrowing related expenses are charged to the Statement of Comprehensive Income as incurred.

i) Derivative Financial Instruments

Derivatives are used exclusively to provide an economic hedge of interest rate and foreign currency exposures. All derivatives are recognised in the Statement of Financial Position at fair value on trade date. All derivatives are classified as held for trading. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Unrealised gains or losses arising from this policy are brought to account in the Statement of Comprehensive Income.

j) Foreign Currency Translation

Foreign currency transactions are brought to account in Australian dollars at trade date at the rate of exchange applying at that date. At the end of the reporting period, all monetary assets and liabilities are translated at the exchange rates existing at that date. Exchange gains or losses are brought to account in the Statement of Comprehensive Income.

Both the functional and presentation currency of WATC is Australian dollars (AUD).

k) Borrowing Costs

Borrowing costs are recognised as an expense when incurred. Interest expense is recognised as it accrues and includes items of a similar nature realised in managing the relevant portfolios. Any realised gains or losses on financial liabilities are also recognised as interest.

l) Employee Benefits

(i) Sick Leave

No provision is made for sick leave benefits as they are non-vesting and the sick leave taken in a financial year is not expected to exceed the benefit accruing in a year.

(ii) Annual Leave

This benefit is recognised at the reporting date in respect of employees' services up to that date and is measured at the present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

(iii) Long Service Leave

The liability for long service leave expected to be settled within 12 months after the reporting date is recognised in the provision for employee benefits, and is measured at the nominal amounts expected to be paid when the liability is settled. The liability for long service leave expected to be settled more than 12 months after the end of the reporting period is recognised in the provision for employee benefits and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given, when assessing expected future payments, to expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iv) Superannuation

The Government Employees Superannuation Board (GESB) and other fund providers administer the superannuation schemes detailed hereunder in accordance with legislative requirements. Eligibility criteria for membership in particular schemes for employees vary according to commencement and implementation dates.

Eligible employees contribute to the Pension Scheme, a defined benefit pension scheme closed to new members since 1987, or the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme closed to new members since 1995. Employees commencing employment prior to 16 April 2007 who were not members of either of these schemes became non-contributory members of the West State Superannuation Scheme (WSS). Employees commencing on or after 16 April 2007 became members of the GESB Super Scheme (GESBS). From 30 March 2012, existing members of the WSS or GESBS and new employees have been able to choose their preferred superannuation fund provider. WATC makes contributions to GESB or other fund providers on behalf of employees in compliance with the *Commonwealth Government's Superannuation Guarantee (Administration) Act 1992*. Contributions to these accumulation schemes extinguish WATC's liability for superannuation charges in respect of employees who are not members of the Pension Scheme or GSS.

WATC also has an unfunded superannuation liability as a result of prior service of current staff who were previously within the public service. The liability for these future payments is provided for at reporting date in the Statement of Financial Position. The liability under this scheme has been calculated annually by Mercer Human Resource Consulting using the projected unit credit method. The expected future payments are discounted to present value using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The GSS, the WSS and the GESBS, where the current service superannuation charge is paid by WATC to GESB, are defined contribution schemes. The liabilities for current service superannuation charges under the GSS, the WSS and the GESBS are extinguished by the concurrent payment of employer contributions to GESB.

The GSS is a defined benefit scheme for the purposes of employees and whole-of-government reporting. However, from an agency perspective, apart from the transfer benefits, it is a defined contribution plan under AASB 119.

The superannuation expense of the defined benefit plan is made up of the following elements:

- current service cost;
- interest cost (unwinding of the discount);
- actuarial gains and losses; and
- past service cost.

Actuarial gains and losses of the defined benefit plan are recognised immediately as income or expense in the Statement of Comprehensive Income.

The superannuation expense of the defined contribution plan is recognised as and when the contributions fall due.

m) Dividend Policy

WATC's dividend policy has been formulated to ensure that WATC pays an appropriate dividend to the State which is consistent with sound commercial practice and has regard to the financial health of WATC. WATC's policy provides for dividends to be paid to the State Consolidated Account at a level of 75 per cent of WATC's after tax equivalent profit, subject to adjustments which have been agreed with the Treasurer. Dividends for the current financial year will be declared by the Board and provided and paid in the subsequent financial year.

n) Income Tax

WATC operates within a tax equivalent regime (TER) whereby an equivalent amount in respect of income tax is payable to the Western Australian Treasury. The calculation of the liability in respect of income tax is governed by TER guidelines and directions approved by Government.

As a consequence of participation in the TER, WATC is required to comply with Australian Accounting Standard AASB 112 'Income Taxes'.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that, at the time of the transaction, did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income are recognised in other comprehensive income, and directly in equity are recognised directly in equity.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

o) Impairment of Assets

At each reporting date, WATC assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, WATC makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and depreciated replacement cost. The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of the asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

p) Receivables

Receivables are recognised at cost. The carrying amount approximates fair value, as they are generally settled within thirty days. An allowance for uncollectible amounts is made when there are indications that an asset is impaired. There is no previous evidence of amounts being uncollected due to the nature of WATC's clients.

q) Payables

Payables are recognised at the amounts payable when WATC becomes obliged to make future payments as a result of a purchase of assets or services. The carrying amount approximates fair value, as they are generally settled within thirty days.

r) Cash and cash equivalents

Cash assets in the Statement of Financial Position comprise cash at bank and in hand. The carrying amount approximates fair value as these items are short term in nature. For the purpose of the Statement of Cash Flows, cash and cash equivalents includes cash in hand and short term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

s) Accrued Salaries

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year, as the end of the last pay period for that financial year does not coincide with the end of the financial year.

Accrued salaries are settled within a fortnight of the financial year end. WATC considers the carrying amount of accrued salaries to be equivalent to the net fair value.

t) Swap Fair Value Reserve

WATC enters into interest rate and currency swaps to mitigate interest rate and foreign exchange exposure on medium and long term debt raised to fund its clients' long term funding requirements. In accordance with accounting standards, changes in swap fair values are brought to account in the Statement of Comprehensive Income. A discretionary capital reserve has been established which may be used to separately identify net profits created by this policy and which may, in the future, be transferred to retained earnings upon maturity of the transactions.

Dividend Policy

WATC's dividend policy has been formulated to ensure that WATC pays an appropriate dividend to the State that is consistent with sound commercial practice and has regard to the financial health of WATC. WATC's policy provides for dividends to be paid to the Consolidated Account at a level of 75 per cent of WATC's previous year's after tax equivalent profit, subject to any adjustments which are agreed with the Treasurer.

Information to be provided to the Treasurer

Management Reporting

Management provides the Board with comprehensive reports on its operational and risk management performance at each of its regular board meetings.

Ministerial Reporting

In line with the accountability provisions of the Act, the Board provides the Treasurer with a report for each of the first three quarters of each financial year. The reports are provided to the Treasurer within one month following the end of the quarter. The Act requires the Treasurer to table each quarterly report before both Houses of Parliament within 14 days of receiving it.

Quarterly reports include an overview of WATC's activities, its achievements against certain key performance indicators and its financial performance.

In addition, the Act requires that the Board provides the Treasurer with a three-year Strategic Development Plan and Statement of Corporate Intent annually.

Annual Report

A comprehensive review of WATC's operations and its performance, together with its audited financial statements, will be reported each year in WATC's annual report, as required under the *Financial Management Act 2006*.

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