PAC – ANNUAL REPORTS INQUIRY

Supplementary Questions following the public hearing of 26 November 2009

Question #	To	Subject
1	Treasurer	Outstanding debt
2	Treasurer	Indexed Annuity Bonds
3	Treasurer	Review of the Territory Banking Account investment portfolio
4	Treasurer	Status of the Territory Banking Account investment portfolio
5	Treasurer	ACTIA – risks, reporting and recording practices
1	Minister for Gaming and Racing	Australian Online Gambling Counselling and Support Program

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TREASURER FOR THE AUSTRALIAN CAPITAL TERRITORY
LEGISLATIVE ASSEMBLY QUESTION

ANNUAL & FINANCIAL REPORTS 2008-2009

Standing Committee on Public Accounts

Supplementary Question 1 – Department of Treasury

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12 JAN 2010
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The Committee- Asked the Treasurer upon Notice:

Pg 18 Debt management

On page 18 in the report there is a paragraph on outstanding debt. A number of reasons are given as to why there was a higher than expected level of outstanding debt. Can you advise us what caused these problems, outline what is being done to address them and the financial implications for the ACT.

Treasurer - The answer to the Member's question is as follows:

The higher than expected level of collectable debt is largely caused by two factors: (i) an increase in payroll tax debts (due to a small number of large assessments) together with a slight increase in rates, fire and emergency services levy (FESL) and land tax; and (ii) a reduction in the overall budgeted taxation revenue which the ratio is calculated against.

An increased level of compliance assessments in 2007-08 ($9.7 million) and also in 2008-09 ($9.8 million), involving mainly payroll tax assessments, has contributed to the increased debt level in payroll tax during 2008-09. Compliance assessments usually involve tax debts for previous years, together with penalty tax and interest charges. Recovery of these larger debts can be more difficult due to the fact that generally companies who have not declared a payroll tax liability for some time are operating close to insolvency. All avenues are pursued in the recovery of these debts including entering into time payment arrangements and court action where appropriate.

The performance of the taxation debt recovery function for a financial year is measured and reported as the average monthly level of collectable debt against the budgeted taxation revenue and expressed as a ratio. The higher level of collectable debt in 2008-09 was largely due to compliance activity which resulted in higher average monthly debt levels measured against the lower budgeted revenue base for 2008-09.

There were also some operational factors which may have contributed to the effectiveness of collecting rates, FESL and land tax debts to a much lesser degree. These are as follows:

- The availability of an automated Letter of Demand process in the Community System; and
- The Government Solicitor's Office (GSO) removal of the function of filing debt recovery action in the courts without the transfer of corresponding resources.

Computer functionality to enable the issuing of an automated Letter of Demand for rates, FESL and land tax debts was unavailable with the conversion to the new system in May 2008. These letters are being produced manually, however, coverage has been restricted due to the manual process. The new automated process is expected to be implemented in 2010.

In July 2008, the GSO ceased the practice of lodging debt recovery documents in the courts on behalf of the ACT Revenue Office. This has reduced the number of debt recovery actions being taken in the court. The ACT Revenue Office is using alternative statutory debt collection actions to manage and recover these debts. These debts are fully secured as a first charge over the property and fully recoverable when the property is sold or transferred.

Interest (currently 11.013 per cent) accrues on all unpaid tax debts. The rate of interest charged on overdue tax debts is higher than any investment interest and therefore, there are no adverse financial implications for the ACT due to the increased level of taxation debt. However, the level of taxation debt is something Treasury has and will continue to monitor closely.

Approved for circulation to the Member and incorporation into Hansard.

K. Gallagher

Katy Gallagher MLA
Treasurer **Date:...12.:01:.10.....**

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TREASURER FOR THE AUSTRALIAN CAPITAL TERRITORY
LEGISLATIVE ASSEMBLY QUESTION

ANNUAL & FINANCIAL REPORTS 2008-2009

Standing Committee on Public Accounts

Supplementary Question 2 – Department of Treasury

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The Committee- Asked the Treasurer upon Notice:

Pg 20 Key achievements

Under Key Achievements - the completion of $120m borrowing in the form of Indexed Annuity Bonds, which was on-lent to ACTEW.
What was the process involved and what was the borrowing for?

Treasurer - The answer to the Member's question is as follows:

The most common method utilised by governments and corporations to raise new borrowings is through the issuance of debt instruments via the debt capital markets.

The Territory has a $2 billion Debt Issuance Programme in place to facilitate the raising of borrowings through the Australian Capital Financial Markets.

- The debt programme comprises:
  - a standardised Note Deed Poll defining important terms and conditions about notes issued under the programme;
  - a Dealer Agreement; and
  - an Information Memorandum.

The programme provides the legal framework and basis for the Territory to issue new borrowings in a variety of forms in the domestic debt capital markets to investors.

Treasury utilises a panel of leading banks and market intermediaries ("dealers") to distribute its debt instruments to a range of institutional investors.

- The Debt Issuance Programme and associated documents allow for 'dealers' to be appointed to the programme by the Territory. Dealers are appointed to the programme by way of completion of an approved Dealer Agreement that forms part of the overall programme documentation.
- The role of the dealer(s) is to facilitate the raising of new borrowings (issuance of debt instruments) on behalf of the Territory. A dealer is one of the major banks that operate within Australia.

The process followed by Treasury for the $120 million debt issuance transaction completed during 2008-09 is set out below. It should be noted that this is the same process undertaken for all long-term debt issuance transactions undertaken on behalf of ACTEW:

- ACTEW sought borrowing approval, setting out its required structure (terms) of the borrowing.
- Treasurer approved, by instrument, new borrowings to be raised by the Territory including the 'general terms and conditions'.
- Treasury appoints a dealer syndicate from the dealer panel under a 'dealer engagement agreement' for the specific debt issuance transaction to be undertaken.
  - The determination of the dealer syndicate is made in consideration of experience and capabilities relative to the form of debt to be issued at the time, ability to meet Treasury time frames, recent experiences and dealer fees.
- The following process is then followed:
  - determine issue structure including sales process;
  - provide key programme documentation to investors;
  - launch relevant Issue to market and investors;
  - book build investors' requirements;
  - determine final pricing (issue yield);
  - Under Treasurer approves the 'detailed terms and conditions' of new Territory borrowings, ensuring these terms and conditions are not inconsistent with the 'general terms and conditions' established by the Treasurer, including:
    - terms and conditions instruments;
    - pricing supplement; and
    - subscription agreement,
  - settlement of transaction; with
    - borrowing proceeds being paid to the Territory Banking Account; and
    - transfer of proceeds to ACTEW.

What was the borrowing for?

The $120 million borrowing represents a tranche of ACTEW total funding requirements between April 2009 and June 2010.

The borrowings for ACTEW are for the funding of its major water security projects and general capital expenditure program.

Approved for circulation to the Member and incorporation into Hansard. K. Gallagher **Katy Gallagher MLA** **Treasurer** **Date:** 23.12.09

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TREASURER FOR THE AUSTRALIAN CAPITAL TERRITORY
LEGISLATIVE ASSEMBLY QUESTION

ANNUAL & FINANCIAL REPORTS 2008-2009

Standing Committee on Public Accounts

Supplementary Question 3 – Department of Treasury

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5 JAN 2010
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The Committee- Asked the Treasurer upon Notice:

Pg 21 Future directions

Investment branch

It has been indicated that you undertook a strategic review of the investment arrangements for the Territory Banking Account investment portfolio and reviewing debt management policies and performance benchmarks.
Have these reviews started, if not when will they start and can you provide the terms of reference for the reviews?

Treasurer - The answer to the Member's question is as follows:

- It is anticipated that both reviews will be completed in early 2010 with the outcomes of the reviews detailed in the 2010-11 Budget Papers.
  - Both reviews have commenced.
    - : The reviews are mostly being undertaken internally.
- The background to each review and the terms of reference for each review are set out in Attachments A and B respectively.

Approved for circulation to the Member and incorporation into Hansard.

Katy Gallagher

Katy Gallagher MLA
Treasurer **Date:** 5 · 1 · 10

Attachment A

Strategic review of the investment arrangements for the Territory Banking Account investment portfolio

Current Arrangements

- The cash of the general government, not required for immediate expenditure, is currently invested in a cash enhanced fund and a domestic fixed interest fund. These investment funds comprise the cash balance from the Territory Banking Account (TBA), the cash held by departments and some Territory Authorities.
- The broad investment strategy is to achieve returns on a net of fee basis at or above the cash rate or bank bill index.

Current Issues

- The cash of the TBA Investment Portfolio is made up of a number of underlying investors such as ACTIA, Home Loan Portfolio, and the Territory Banking Account.
  - Each of the investors has unique cash flow profiles and risk and return objectives. It has been some time since analysis has been undertaken to ensure that their actual moneys available for investment have been allocated into an appropriate investment fund that will meet their individual investment objectives.
- Individual investor investment objectives need to be established so that appropriate investment funds can be established to meet their needs.
- At the investment fund level, two types of Funds have been established: a cash enhanced fund; and a domestic fixed interest fund.
- Investors currently only have the choice of either of these Funds to place investment deposits.
- As well as establishing investment objectives for each underlying investor, an analysis of the risks and objectives is also required of these two Funds to ensure that they are able to meet the investment objectives of the underlying investors and also meet any higher level objectives of the Territory as a whole.
  - In reviewing these two Funds, it may also be necessary to consider the establishment of additional asset classes to facilitate the investment objectives of the underlying investors.

Investment Strategy Review – Terms of Reference

1. To review the appropriateness of the current investment strategy and arrangements;

   To examine and evaluate alternative strategies and structures; and

To recommend options in respect of a future strategy.

2. In responding to **1.** above, take into account the following:
   - The risk and return objectives of the underlying investors of the Territory Banking Account investment portfolio, including the Territory Banking Account;
   - The inherent volatility in the estimated cash flows of each underlying investor;
   - The nature of the moneys being invested and as such, the appropriate level of risk the assets should be exposed to; and
   - The asset classes available to meet the risk parameters.

3. The review will be informed by:
   - An analysis of the risk and return objectives of each of the underlying investors of the Territory Banking Account investment portfolio, including the Territory Banking Account by consulting with each underlying investor;
   - Estimated investment balances and future cash flows; and
   - Advice from Treasury's appointed asset consultant.

Attachment B

Review of debt management policies and performance benchmarks

Current Arrangements

- The current debt management policy and benchmarks were developed in 2005 and it is now considered timely for a review to be undertaken.
- Current outstanding total Territory debt (at 30 June 2009) is $1.097 billion of which $882 million is for ACTEW and Housing related debt and $215 million is for general government debt.
- The debt management policy relates only to the general government debt.
- The current agreed policy and strategy for the management of the Territory's general government debt portfolio is:
  - meeting the budgeted interest cost in the current year and budget forecast estimates;
  - to raise and manage debt on a centralised basis for the Territory;
  - the debt portfolio to be managed against a debt benchmark that is independent of financial assets; and
  - to manage the debt portfolio against a debt management benchmark, being:
    - : a modified duration target of three years with a policy range of ±0.5 years; and limiting the amount of floating rate debt to a maximum of 30 per cent in total.
  - debt funding instruments limited to commercial paper, electronic promissory notes, medium term notes, floating rate notes, and inflation linked bonds issued in the domestic financial market.

Current Issues

- Since 2005 the actual debt portfolio has reduced from $230 million to $215 million due to principal repayments with a resultant shortening of the modified duration of the debt portfolio as the term to maturity of the underlying borrowings shortens.
- In order to achieve benchmark duration targets and to reduce the floating interest rate exposure, a number of interest rate swaps have been undertaken.
- A significant reason for the establishment of the debt management benchmark policy in 2005 was to strike an appropriate balance between the risks associated between the volatility of interest costs and the cost of ensuring interest cost stability via fixed rate debt.

- Since 2005, there has been many changed market conditions, fluctuating cash rates of recent years and a number of the original underlying assumptions that underpinned the policy not actually eventuating (for example, it was assumed that the overall level of outstanding borrowings would increase over-time providing ongoing debt transactions to materially assist in meeting duration and interest rate exposure objectives).
- Accordingly, it is appropriate to undertake a review of the current debt management policy and benchmarks in the context of the current market environment and estimated future borrowing requirements.

<u>Debt Management Policy and Benchmarks Review – Terms of Reference</u>

1. To review the appropriateness of the current debt management policy and benchmarks;

To examine and evaluate alternative policies, strategies and benchmarks; and

To recommend options in respect of a future strategy.

2. In responding to **1.** above, take into account the following:

- The suitability of the current debt management objectives;
- The current debt management approach (ie. centralisation);
- The appropriate debt management style (eg. active, passive, reactive, strategic etc);
- Suitable risk profile (hedging guidelines, hedging profile); and
- The requirement to establish clear benchmark targets, strategic and accountability indicators.

3. The review will be informed by:

- An analysis of the current debt management policy and benchmarks;
- Future estimated borrowing requirements;
- Where possible, peer debt management policy and benchmarks;
- The current financial market environment; and
- Advice from Treasury's appointed debt management adviser, Barrington Treasury Services.

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TREASURER FOR THE AUSTRALIAN CAPITAL TERRITORY
LEGISLATIVE ASSEMBLY QUESTION

ANNUAL & FINANCIAL REPORTS 2008-2009

Standing Committee on Public Accounts

Supplementary Question 4 – Department of Treasury

The Committee- Asked the Treasurer upon Notice:

Pg 23 Superannuation Provision Account

On page 23 you outline the difficulties faced in relation to the Territory's Investment Portfolio due to the global financial crisis. Has the recent improvement in financial circles led to a more positive result for the portfolio over recent months and what is the anticipated outlook for the next six months of the financial year?

Treasurer - The answer to the Member's question is as follows:

There has been a strong recovery across financial markets since end March 2009, in equity markets in particular.

The 2009-10 financial year-to-date return (1.07.09 to 30.11.09) in relation to the Superannuation Provision Account is 10.09 per cent (net of fees). By comparison, the year-to-date budget target is 3.1 per cent (5 per cent plus CPI for the full year).

The anticipated outlook for the remainder of the financial year is unclear given the uncertainties that remain across all global economies as stimulus packages continue to remain in place and structural reforms continue to be implemented.

Approved for circulation to the Member and incorporation into Hansard.

K. Gallagher

Katy Gallagher MLA
Treasurer

Date: 23.12.09

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TREASURER FOR THE AUSTRALIAN CAPITAL TERRITORY
LEGISLATIVE ASSEMBLY QUESTION

ANNUAL & FINANCIAL REPORTS 2008-2009

Standing Committee on Public Accounts

Supplementary Question 5 ACT Insurance Authority

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-7 JAN 2010
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The Committee- Asked the Treasurer upon Notice:

A.5 Management Discussion and Analysis

The Authority's management has identified the following potential risks that may influence the future financial position of the Authority –

- Increases in or late notification of claims by agencies, and data errors may result in either claim provision being misstated or reinsurers revising insurance terms. There is also the possibility that reinsurers may withdraw cover previously agreed. The Authority will continue to develop better claims reporting and recording practices.

Can you inform us of how the Authority is going about developing better claims reporting and recording practices

Treasurer - The answer to the Member's question is as follows:

The Authority continues to work with agencies to ensure that their reporting procedures capture all incidents that may develop into insurance claims.

Examples of this activity during 2008/09 include the following

- Working with ACT Health to update procedures for notifying ACTIA of matters referred to the coroner;
- Development of agency-specific incident reporting databases implemented across TAMS, ESA and Housing ACT;
- Development of the Accident Prevention and Management Module that forms part of ACTION's Driver Induction Program.

Approved for circulation to the Member and incorporation into Hansard.

K. Gallagher
Katy Gallagher MLA
Treasurer

Date: 7.1.10

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MINISTER FOR GAMING AND RACING FOR THE AUSTRALIAN CAPITAL TERRITORY
LEGISLATIVE ASSEMBLY QUESTION

ANNUAL & FINANCIAL REPORTS 2008-2009

Standing Committee on Public Accounts

Supplementary Question 1 – Gambling and Racing Commission

The Committee - Asked the Minister upon Notice:

Pg 80 - A.9 – Analysis of Agency performance

With regard to the Australian Online Gambling Counselling and Support Program which was agreed to at the Ministerial Council on Gambling in July 2008 – has the counselling website been established and activated as was anticipated by September 2009? If not when do you expect it to be operational? And what are the obstacles?

Minister - The answer to the Member's question is as follows:

The Australian Online Gambling Counselling and Support Program was officially launched on 8 October 2009 after a short trial period.

Its web address is: gamblinghelponline.org.au

Approved for circulation to the Member and incorporation into Hansard.

Katy Gallagher

Katy Gallagher MLA
A/g Minister for Gaming and Racing **Date:** 12.1.2010