



Department of Treasury and Finance
Government of Western Australia

Cash Management Policy

December 2007

Content

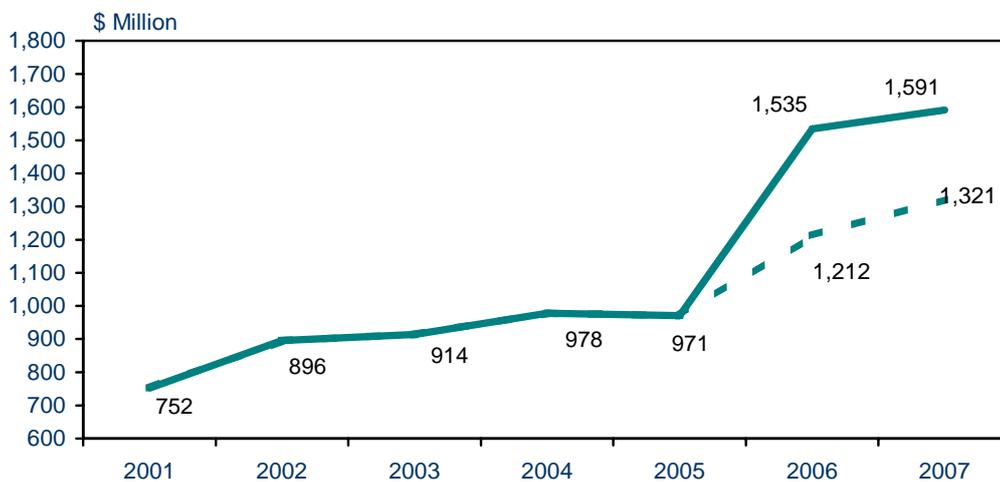
| | |
|--|-----------|
| 1.0 INTRODUCTION | 1 |
| 1.1 Objective | 2 |
| 1.2 Scope/ Application..... | 2 |
| 1.3 Commencement Date | 2 |
| 2.0 POLICY DETAILS..... | 3 |
| 2.1 Account Balances covered by the Cash Management Policy | 3 |
| 2.2 Formulation of Working Cash Limit | 3 |
| 2.3 Agency Template | 4 |
| 2.4 Capital | 4 |
| 2.5 Net Appropriation Revenue | 5 |
| 3.0 IMPLEMENTATION | 6 |
| 3.1 Roles and Responsibilities | 6 |
| 3.2 Timeline..... | 7 |
| 3.3 Excluded Cash | 9 |
| 3.4 Agency Surplus Cash..... | 9 |
| 3.5 Transfer of Surplus Cash to the Consolidated Account..... | 10 |
| 3.6 Accounting Treatment | 10 |
| 3.7 Monitoring | 10 |
| 4.0 ATTACHMENTS | 11 |
| Attachment 1 - Agencies subject to the Working Cash Limit | 11 |
| Attachment 2 - Agency Questionnaire and Template | 12 |
| Attachment 3 - Forecast of Net Appropriations Template..... | 15 |
| Attachment 4 - Accounting Entries for transfer of funds | 16 |

1.0 INTRODUCTION

Cash balances held by agencies have been increasing over recent years, providing agencies with the capacity to spend above expense limits and potentially posing a risk to the Government's financial targets. There is also an opportunity cost associated with excess cash balances, i.e. while the cash earns a rate of return, it could potentially be put to more productive uses.

The trend in agencies' cash balances since 2001 is illustrated in the following graph.

TRUST ACCOUNT BALANCES At 30 June



Note: The variances occurring in both 2006 and 2007 reflect once-off Auslink funding from the Commonwealth of \$323 million in 2006 and \$270 million in 2007. The staggered line excludes this funding source. Source: agency data lodged in the Treasury Information Management System.

The Cash Management Policy requires agencies to operate within an agreed working cash limit. The limit is based upon a percentage of agencies' budgeted recurrent cash payments.

Cash that is projected to be surplus to agencies' requirements will, in the first instance, be used in place of an appropriation drawdown. If surplus cash still remains at 30 June, it would be available for transfer by the Treasurer to the Consolidated Account, after audited end of financial year results are available.

1.1 Objective

The primary objective of the Cash Management Policy is to proactively review agencies' cash balances during the year and to adjust appropriation drawdowns as required, in order to encourage agencies to manage to a predetermined working cash limit. The policy will also 'operationalise' section 20 of the Financial Management Act 2006 (FMA).

It is intended that the policy will:

1. improve the accuracy of cash forecasting by agencies, including estimates of own-source revenues collected under net appropriation arrangements;
2. provide more proactive management during the financial year of appropriation draw downs, based on agencies' actual cash needs; and
3. operationalise a process for identifying surplus or excess cash balances, for potential transfer to the Consolidated Account, as provided for in section 20 of the FMA.

It is hoped that point 3 will be used as a 'last resort' and that the mere existence of section 20 of the FMA will encourage agencies to work cooperatively with the Department of Treasury and Finance (DTF) to better manage their cash balances throughout the course of the financial year.

1.2 Scope/ Application

The Cash Management Policy will apply to all appropriation-supported agencies in the general government sector. However, a 'working cash limit' will be imposed initially on 21 of the larger budget funded general government sector agencies (Attachment 1). The policy will also incorporate detailed reviews of agencies' net appropriation arrangements.

1.3 Commencement Date

This policy is effective from the 2008-09 annual budget deliberations with implementation for the 2008-09 financial year.

This version of the Cash Management Policy will be reviewed in late 2009. Executive responsibility for the policy review lies with the Executive Director (Finance).

2.0 POLICY DETAILS

2.1 Account Balances covered by the Cash Management Policy

This policy applies initially to agencies' operating accounts. In relation to controlled funds, some agencies have a number of special purpose accounts in addition to their operating account. These special purpose accounts may include true trust accounts where private monies are held, or Commonwealth or other source funds that are held for specific purposes.

As a general rule, there is no authority to spend any funds from a special purpose account other than the purposes stated in the special purpose (or trust) statement or in relevant legislation. Agencies are required to maintain cash balances to cover all special purpose accounts. Accordingly, the Cash Management Policy applies only to agencies' operating accounts, but will omit funds related to capital works projects and other funds held in the operating account that are determined to be excluded, such as Commonwealth grants.

Cash balances relating to administered items will also be excluded from the policy.

2.2 Formulation of Working Cash Limit

The approved working cash limit is the maximum level of cash required to meet commitments associated with payments for recurrent services. The approved working cash limit is to be calculated prior to the start of each financial year and once determined, agency cash balances would be monitored at key intervals, i.e. the Mid Year Review (November), the pre-budget deliberation process (February), and after 30 June audited actuals are known.

The working cash limit is calculated on agencies' budgeted total annual recurrent payments. This includes the total operating and financing payments as outlined in the Cashflow Statement, but excludes payments for investing activities and the goods and services tax. The working cash limit formula is as follows:

Working Cash Limit = budgeted recurrent payments (total operating and financing) multiplied by 5%

By way of example, DTF's budgeted recurrent payments (for 2007-08) total \$121.6 million. DTF's working cash limit would be 5% of this, or \$6.1 million, which equates to just over one fortnight's working cash needs. As a general rule, and subject to the following comments, a cash balance in excess of this amount would be considered excess to DTF's needs.

This working cash limit is applicable unless an agency is able to demonstrate it is not reasonable, due to the nature of their cashflow requirements. In this regard, a submission establishing an alternative working cash limit would need to be prepared by the agency in consultation with DTF's Agency Resources Division, for consideration and approval by the Under Treasurer.

Agencies will continue to provide Cash Disbursement Profiles and have the flexibility to amend the profiles at any time during the year to reflect changed circumstances and unforeseen cash flow requirements. In addition to the current Cash Disbursement Profiles, agencies will be required to provide DTF with bi-annual updates on their estimated own-source revenues under the net appropriation arrangements.

In the absence of satisfactory explanations by affected agencies, funds that exceed the agreed working cash limit will need to be returned/recouped through the adjustment of future disbursement draw downs or, as a last resort, transferred to the Consolidated Account (subject to the necessary approvals), or otherwise utilised as agreed between the agency and DTF.

Agency Resources will work with agencies to identify possible surplus cash and ensure that, to the extent possible, agreed working cash limits are adhered to.

2.3 Agency Template

To assist agencies in calculating potential surplus cash, a template and questionnaire has been developed which will be initially circulated to the 21 agencies at the predetermined review times (refer Attachment 2).

2.4 Capital

Capital works funding will not be subject to the application of the working cash limit. Rather, cash flow forecasts of capital works will continue to be provided prior to the commencement of each new financial year. These forecasts will then be reviewed during the year by DTF, as part of the Mid Year Review (November) and as part of the annual pre-budget deliberation process (February). Adjustments to capital cash flows (such as the preclusion of draw downs) will be made, as appropriate, as part of these reviews.

The exclusion of capital works funding from the working cash limit is in recognition of the difficulties involved in forecasting cash flow requirements of capital projects, the involvement of third parties in managing capital projects (e.g. Department of Housing and Works) and the complex approvals processes required for many projects that can contribute to time delays.

In addition, cash associated with capital works may be attributable to proceeds from asset sales. This cash is exempt from the application of the Cash Management Policy as, in accordance with the Strategic Asset Management guidelines, agencies are to be automatically

re-appropriated at least 50% (and up to 100%) of proceeds associated with asset sales, which can be reapplied to other capital works priorities of the agency.

The Major Government Projects Taskforce, a Cabinet sub-committee, also reviews the status and progress of capital works.

2.5 Net Appropriation Revenue

Agencies will be required to meet their commitments in the first instance from own-source revenue via the net appropriation arrangements, with remaining commitments funded from appropriation draw downs.

DTF's role in managing the public sector's cash resources is to ensure cash is being used effectively at all times, which includes monitoring the rate at which agencies access appropriations. To facilitate this, agencies are required to complete a 'Cash Flow' profile on own-source revenue receipts (refer Attachment 3).

The Agency Resources Division of DTF will review the cashflow profile on a bi-annual basis and agencies will need to demonstrate that:

- own-source revenue is drawn down prior to appropriation draw downs; and
- they continue to operate within approved expense limits.

3.0 IMPLEMENTATION

3.1 Roles and Responsibilities

All agencies will be required to provide DTF with:

1. a disbursement profile (recurrent and capital) and a forecast of net appropriations (new form, refer Attachment 3) for the new financial year; and
2. a review of disbursement/net appropriation profiles and explanations for surplus cash balances (if any) in consultation with Agency Resources Analysts, as part of the Mid Year Review process.

The 21 agencies will also need to provide a review of cash balances against the previously determined working cash limit during the annual pre-budget deliberations (February); and adjust disbursement profiles (where appropriate) in consultation with the Agency Resources Analyst.

Agency Resources Analysts will:

1. for the 21 agencies - calculate the 'Working Cash Limit' thresholds based on budget figures and advise agencies prior to the start of the financial year;
2. be responsible for monitoring cash flows throughout the year in consultation with agencies, and adjust disbursement profiles when required (the timing of which is outlined in section 3.2);
3. provide the Expenditure Review Committee with findings based on the Mid Year Review and pre-budget deliberations review for consideration as part of the annual budget deliberations;
4. as part of the annual budget process, consider agencies' cash balances as a potential funding source when analysing new policy proposals for the current financial year and forward estimates period; and
5. review agencies' cash balances based on audited 30 June actual financial results and, where appropriate, advise the Expenditure Review Committee on the:
 - amount/rationale for surplus cash as at 30 June;
 - amount of appropriation draw downs withheld as a consequence of this policy prior to 30 June;

- amount of surplus cash used as a source of funding to finance new or existing policy initiatives; and
- recommended amount of uncommitted surplus cash to be transferred to the Consolidated Account in accordance with section 20 of the FMA.

Whilst discussions between agencies and Agency Resources Analysts will be based on forecast results, final decisions regarding transfers to the Consolidated Account will be based on end of year audited actuals.

Financial Operations will adjust the release of funds during the year once any required amendments to disbursement profiles have been agreed.

Financial Policy will provide Agency Resources with advice and a template for calculating the formula for the working cash limit and liaise closely with stakeholders to ensure the endorsed policy is understood.

3.2 Timeline

The following table highlights the roles and responsibilities of parties subject to the Cash Management Policy and the proposed timeline of activities.

| Action | Completed |
|--|-------------------------------------|
| <p>Cash Management Policy for 21 Agencies (representing the larger budget funded general government sector agencies)</p> <p>The Working Cash Limit will apply to 21 agencies, which represent 73% of cash holdings of the general government sector.</p> | |
| <p>Agency Resources to calculate the 5% Working Cash Limit thresholds based on budgeted cash payments for the new financial year and advise agencies.</p> <p>Agencies to prepare disbursement profiles and net appropriation forecasts for the new financial year.</p> | June |
| <p>Based on Mid Year Review data, Agency Resources to analyse year to date actuals and revised 30 June projections of cash balances (of the 21 target agencies) against the previously calculated 5% Working Cash Limit threshold, with a view to identifying potential surplus cash.</p> <p>Where appropriate, disbursement profiles to be adjusted.</p> | November (MYR) |
| <p>Review the cash balances of those agencies (from the 21 targeted) that exceeded the working cash limit threshold at MYR. Determine whether they still have surplus cash by comparing the working cash limit to cash balances in their non-restricted operating account at February (use year to date actuals and revised projections to 30 June).</p> <p>Agency Resources to provide Expenditure Review Committee with the findings/recommendations from the MYR and February review for consideration as part of the annual budget deliberations. Excess cash could be considered as a possible source of funding for new agency initiatives or in response to agency requests for additional recurrent funding.</p> <p>Where appropriate, Agency Resources Analysts to adjust disbursement profiles based on updated actuals and projections to 30 June, and advise agencies accordingly.</p> | February (Pre-budget deliberations) |
| <p>As part of analysing new policy proposals, agencies' existing cash balances will be considered as a funding source for:</p> <p style="padding-left: 40px;">the current financial year; and/or forward estimates period.</p> | Budget Process |
| <ul style="list-style-type: none"> • Agency Resources to review cash balances based on audited 30 June actual financial results, and where appropriate recommend that the Treasurer transfer surplus agency cash to the Consolidated Account (as part of the 'Year End Financial Adjustment' process). <p>Agency Resources to advise Expenditure Review Committee:</p> <ol style="list-style-type: none"> 1. amount/rationale for surplus cash as at 30 June; 2. amount of appropriation draw downs withheld as a consequence of this policy prior to 30 June; 3. amount of surplus cash used as a source of funding to finance new or existing policy initiatives; and 4. recommended amount of uncommitted surplus cash to be transferred to the Consolidated Account in accordance with section 20 of the FMA. | Late Sept |

| Action | Completed |
|--|---|
| <p>Cash Management Policy for All Other Agencies</p> <ol style="list-style-type: none"> 1. Identification of Funding Source As part of analysing new policy proposals, agencies' existing cash balances will be considered as a funding source. 2. Regular Reviews of Disbursement Profiles Disbursement profiles (recurrent and capital appropriation) will be reviewed as part of the Mid Year Review process (November) and pre-budget deliberation process (February) 3. Regular Reviews of Own Source Revenue (new form) Cash flow forecasts will be reviewed as part of the Mid Year Review process (November) and pre-budget deliberation process (February). | <p>Year-round (as required)</p> <p>November/ February</p> <p>November/ February</p> |

3.3 Excluded Cash

For the purposes of the Cash Management Policy “excluded cash” has been defined to include restricted cash which may be held in trust or for a *specific purpose* pursuant to legal requirements, e.g. Commonwealth grants and accrued salaries relating to the 27th pay period. The nature of the restriction must be based on adequate supporting documentation, e.g. reference to an Act or contract, substantiating the designated nature of the cash.

From a legal perspective, specific purpose money is defined in Treasurer’s instruction 806 as “money that the accountable authority is obliged to spend in accordance with the conditions or restrictions specified by the donor or contributor”.

Should agencies have queries in determining the nature of some cash items, assistance can be sought from DTF’s Agency Resources Division or Financial Policy Division.

3.4 Agency Surplus Cash

Under section 20 of the FMA, the Treasurer has the authority to transfer funds from an agency to the Consolidated Account. Prior to facilitating this transfer, which is viewed as a last resort, cash that is identified as surplus during the year by DTF in consultation with agencies will be used in the first instance, with consequent adjustments to the agency’s previously advised schedule of appropriation draw downs.

3.5 Transfer of Surplus Cash to the Consolidated Account

Once an agency's audited end of financial year results are available, any remaining surplus cash would be recommended for transfer to the Consolidated Account, subject to the Treasurer's approval under section 20 of the FMA.

3.6 Accounting Treatment

All transfers of surplus cash to the Consolidated Account will represent an equity distribution by the agency to the Government in its capacity as owner, that is, the asset would be removed from the agency's balance sheet. Where an agency has no Contributed Equity, or the balance is insufficient, the amount would be debited to the balance sheet item of Accumulated Surplus (refer accounting treatment disclosed at Attachment 4).

3.7 Monitoring

Agency Resources would undertake the monitoring role in consultation with Financial Policy and other relevant business areas within DTF.

4.0 ATTACHMENTS

Attachment 1 - Agencies subject to the Working Cash Limit

The following 21 agencies are subject to the 5% working cash limit of the Cash Management Policy:

- Department of Attorney General
- Department of Agriculture and Food
- Department for Child Protection
- Department for Communities
- Department of Consumer and Employment Protection
- Department of Corrective Services
- Department of Culture and the Arts
- Disability Services Commission
- Department of Education and Training
- Department of Environment and Conservation
- Department of Fisheries
- Department of Health
- Department of Housing and Works
- Department of Industry and Resources
- Department for Planning and Infrastructure
- Department of the Premier and Cabinet
- Department of Racing, Gaming and Liquor
- Department of Treasury and Finance
- Department of Water
- Western Australia Police Service
- Western Australian Tourism Commission

Attachment 2 - Agency Questionnaire and Template

To assist the Department of Treasury and Finance in analysing the composition of your agency's cash balances, please complete the following questionnaire and template and return it to your Agency Resources Analyst at the Department of Treasury and Finance.

Working Cash Limit Formula - Use the template on the following page to calculate

Data for Column 'A'

This data will be sourced from budget data submitted in TIMS for the commencement of the new financial year.

The total 'Cash at Bank' figure is provided in order to facilitate a point of reconciliation.

Excluded items may include: Special Purpose Payments; funds allocated for the 27th pay period; restricted cash; administered items; and capital. Further explanations of excluded items are provided in Section 3.3 of the Cash Management Policy.

The calculation of payments is sourced from the annual budget information in the Cash-flow Statement and is represented by the addition of Cashflows from operating payments (excluding GST) and Financing Activities (Cash flows from Investing Activities is excluded on the basis that the working cash limit excludes funding associated with capital projects).

Data for Column 'B'

The cash in the operating account will be recalculated based on updated data provided in TIMS as part of the Mid Year Review process.

Data for Column 'C'

The cash in the operating account will be recalculated based on TIMS data in February, just prior to the budget deliberation process.

Data for Column 'D'

The cash in the operating account will be recalculated to 30 June, once the audited actuals are known and loaded into TIMS as part of the 'Year End Financial Adjustments process' (mid Sept).

Should cash balances exceed what was budgeted for, explanations will need to be provided to DTF, that is, are cash balances attributable to:

- *Savings from unfilled job positions?*
- *Employee leave liabilities?*
- *Net appropriation revenues?*
- *Deferred payments (recurrent)?or*
- *Unexpected underspends/savings.*

In addition, please advise your Agency Resources Analyst on the value of commitments against these cash balances and whether or not there are any extenuating/unique issues that have contributed to the size of the balance.

TEMPLATE ONLY

| Calculation of surplus cash as at 30 June | | | | |
|--|--|---|---|--|
| Agency A (Example based on 2006-07) | | | | |
| | Projected 30 June 07 details (\$ '000) | | | |
| | A | B | C | D |
| | Budget (TIMS data) | Mid Year Review Nov-06 | Pre-budget deliberations Jan/Feb 07 | 30 June 07 audited actual details (\$'000) Mid September 07 |
| Date available | | | | |
| <u>Cash balances</u> | | | | |
| Total Cash at Bank ^(a) | 370 | 540 | 680 | 515 |
| Less Excluded items i.e.: | | | | |
| - Special Purpose Money | | | | |
| - Capital | | | | |
| - Other (e.g. restricted cash) | -120 | -120 | -120 | -120 |
| (1) Non excluded cash in Operating Account | 250 | 420 | 560 | 395 |
| <u>Budgeted cash payments</u> | | | | |
| (2) Operating and Financing (excludes GST & investing payments). | 5,000 | 5,000 | 5,000 | 5,000 |
| <u>Working cash limit</u> | | | | |
| (3) 5% of budgeted cash payments (No.2 x 5%) | 250 | 250 | 250 | 250 |
| Potential surplus cash (= operating account balance (1) minus working cash limit (3)) | 0 | 170 | 310 | 145 |
| <p>^(a) Provided in order to facilitate reconciliation to the 'total cash at bank'. Excluded items may include: Special Purpose Payments, restricted cash, administered items and capital (refer Section 3.3 of Cash Management Policy).</p> | | | | |
| Agency authority | | Department of Treasury and Finance authority | | |
| Name: | | Name: | | |
| Position: | | Position: | | |
| Date: | | Date: | | |
| Authorised by: | | Authorised by: | | |

Attachment 3 - Forecast of Net Appropriations Template

| | | |
|--|------------------------------------|--|
| <p>FORECAST OF NET APPROPRIATIONS 2008/09 <i>To be submitted to your Treasury and Finance Analyst, Agency Resources</i> <i>Fax: 9481 0639</i></p> | | |
| <p>AGENCY:</p> | | |
| COMMENCING | Estimated | Actual |
| Jul-08 | | |
| Aug-08 | | |
| Sep-08 | | |
| Oct-08 | | |
| Nov-08 | | |
| Dec-08 | | |
| Jan-09 | | |
| Feb-09 | | |
| Mar-09 | | |
| Apr-09 | | |
| May-09 | | |
| Jun-09 | | |
| Jul-09 | | |
| <p>_____ Chief Finance Officer</p> | <p>_____ AR Policy Analyst</p> | <p>_____ AR Assistant Director</p> |
| <p>_____ Signature</p> | <p>_____ Signature</p> | <p>_____ Signature</p> |
| <p>_____ Date</p> | <p>_____ Date</p> | <p>_____ Date</p> |

Attachment 4 - Accounting Entries for transfer of funds

Transfer from Agency Operating Account to Consolidated Account

(Distribution to Owner)

Cash Flow Statement transaction

Dr Net movement in cash

Cr Cash balance transferred out

Balance Sheet Statement

Dr Contributed Equity (or Accumulated Surplus)

Cr Agency Cash at Bank