Western Australian Treasury Corporation —

Mr L.M. Britza, Chairman.

Mr T.R. Buswell, Treasurer.

Mr T.M. Marney, Under Treasurer.

Mr J.M. Collins, Chief Executive Officer.

Mr S.L. Luff, Chief Financial Officer.

The CHAIRMAN: I ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

The CHAIRMAN: This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the committee clerk by Friday, 30 August 2013. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office.

I call the member for Victoria Park.

Mr B.S. WYATT: Treasurer, can I ask questions in respect of not just budget paper No 2 but also budget paper No 3? I will refer to a relevant page and why it is relevant. I assume the Treasurer is comfortable with that, as he has been in the past?

Mr T.R. BUSWELL: Have I been?

Mr B.S. WYATT: Yes, he has, as was the previous Treasurer, Christian Porter. He was also comfortable with that.

I refer to page 281 of budget paper No 3, *Economic and Fiscal Outlook*, regarding the Western Australian Future Fund, which is managed by Western Australian Treasury. Can the Treasurer or his advisers tell us today, or by way of supplementary information, where the current $306 million is invested and what percentage of that investment is in long-term investments?

Mr T.R. BUSWELL: I appreciate the question. I had a discussion about this with Mr Collins prior to coming into the chamber. Mr Collins' advice to me is that in relation to the investment of those funds, the client is Western Australian Treasury. I am happy to answer the question at the appropriate time, but it would be more appropriate if that question was asked of that client—Treasury—as opposed to Western Australian Treasury Corporation. It has fairly stringent conditions around respecting the privacy of its clients. I am not averse to answering the question, but Mr Collins' advice to me is that that is a question that should be directed to Treasury, as opposed to the WATC.

Mr B.S. WYATT: The 2012–13 budget fact sheet says that the future fund will be managed by Treasury Corporation. Is that true?

Mr T.R. BUSWELL: It manages it for sure, but its client is Treasury. I am happy to answer the questions, but it is probably better that those questions are asked of Treasury rather than the WATC.

Mr B.S. WYATT: When Tim Marney is here, is he likely to say that they are questions that should be directed to Treasury Corporation?

Mr T.R. BUSWELL: No. We will provide the information—it is not a problem.

Mr B.S. WYATT: Okay then. Another question if I can, Mr Chair?

The CHAIRMAN: Member for Cannington.

Mr W.J. JOHNSTON: Given that the budget papers reflect that the Muja project has been brought on to Verve Energy's balance sheet, does that mean that the debt that was previously held in the Vinalco joint venture has now been funded by Treasury Corporation?

Mr T.R. BUSWELL: The advice I have is that at this stage Treasury Corporation has not been approached by Verve to arrange a funding facility for that particular asset.

Mr W.J. JOHNSTON: Is there any other debt from any of the government trading enterprises that is not funded by Treasury Corporation?

Mr T.R. BUSWELL: That is a good question. As the member would have heard, the advice that I have is that GTEs generally borrow through Treasury Corporation, so I assume that at some stage in the not-too-distant future—unless it has capacity within approved borrowings, which may well be the case—Verve would have to approach Treasury Corporation for additional funding. There is no doubt that that money, as I understand, will be debt funded. I am assuming that Verve does not have large wads of cash, and, even if it does have cash, it still impacts on net debt. Either it uses an existing facility or it will be approaching Treasury Corporation. I might just get a little bit more information. Verve would have a global limit in terms of what it can borrow, so it is probably being funded within that global limit. It is not like the member or I nipping down to the bank and saying we want to build an extension to the house or whatever and putting up a business case around that to the financier. It would seem to me that it is done on a more global provision basis.

Mr Chair, would I be able to seek your leave to have another adviser present—a very important adviser in the context—the chairman of Western Australian Treasury Corporation, Mr Marney?

The CHAIRMAN: Yes, minister. Can you advise us who it is?

Mr T.R. BUSWELL: Mr Tim Marney, who is appearing before this estimates committee in his capacity as chairman of Western Australian Treasury Corporation.

The CHAIRMAN: Thank you, minister.

Mr T.R. BUSWELL: For which he receives zero fees.

The CHAIRMAN: Is there a further question on that subject?

Mr W.J. JOHNSTON: Yes, there is a further question to that. That is loud, is it not?

Mr T.R. BUSWELL: It is the upper house.

Mr W.J. JOHNSTON: They need it for their hearing aids. Given that there was a facility for the other company, Vinalco, does the government have a policy to allow GTEs to borrow other than from Treasury Corporation?

Mr J.M. Collins: They have the ability to borrow from others, but choose not to.

Mr T.R. BUSWELL: Thanks for that, Mr Collins. We also have to understand that their capacity to borrow is dependent on decisions of government. While it is not a requirement that they borrow the funds that they have been approved to borrow from Treasury Corporation, my understanding is that the rates and the extremely high quality of service that they receive would generally result in them borrowing the money from Treasury Corporation.

Mr B.S. WYATT: Does Treasury Corporation have any clients other than Treasury?

Mr T.R. BUSWELL: I might get Mr Collins to provide some information on that.

Mr J.M. Collins: It depends on the member's definition of Treasury. There are no other clients that the WATC has other than the WA public sector. That includes the Department of Treasury, the utilities and local governments. There are approximately 160 Western Australian public entities that are our clients. If they are not listed as an authority, then by legislation, we are not allowed to deal with them.

Mr B.S. WYATT: If public utilities need to utilise Treasury Corporation, is that done through Treasury or direct between that utility and Treasury Corporation?

Mr J.M. Collins: It is a combination. Advisory services can come to us directly and we can provide advisory services; but in terms of establishing lending limits for each of the entities, they have to apply for specific projects through the Department of Treasury, and then once those limits are established and communicated, they are given to us and then it is our job to try to fund them as they require—up to those specific limits.

[9.10 am]

Mr B.S. WYATT: Does Treasury have a breakdown of the borrowings per government agency—per client?

Mr J.M. Collins: Of course we do.

Mr B.S. WYATT: Can that be provided to us?

Mr J.M. Collins: I think that is probably best —

Mr T.R. BUSWELL: I have not seen it myself, but of course they would have it.

Mr J.M. Collins: That is something we have not provided publicly before because they are clients. We have requirements between our clients and we have sort of a relationship between them. If directed, we can.

Mr T.R. BUSWELL: I will have a look at that. I will get Mr Marney to add to that.

Mr T.M. Marney: We routinely disclose the debt portfolio as part of our annual report; there is an appendix in the annual report that runs through —

Mr B.S. WYATT: Per agency?

Mr T.M. Marney: Yes.

Ms R. SAFFIOTI: I am looking at the 2012 annual report of Western Australian Treasury Corporation, which talks about $3.9 billion in new loan funding to Western Australian public sector entities. Does the Treasurer have an updated figure for 2012–13 of how much new loan funding was raised for those entities and a break-up between state and local government?

Mr J.M. Collins: That will be released shortly; it will be released as soon as our audited financial statements are publicly released, which is very close to being done. An update will be available in the annual report, which I imagine will be available in two or three weeks.

Mr T.R. BUSWELL: That information is coming. I understand that it will also be in the annual report. It is on its way.

Ms R. SAFFIOTI: What has been the source of most of the funds? Has it been offshore or international, or Australia-based?

Mr T.R. BUSWELL: That is a very interesting question; I will get Mr Collins to answer that in some detail. I might get him to comment on two things, the first being the people who are investing in our paper. I might also get him to comment on some of the shifts in interest in terms of offshore versus domestic, because there have been quite interesting shifts. I ask Mr Collins to run through that.

Mr J.M. Collins: We have two sources of investors that largely account for about two-thirds of our portfolio, although I have to admit it is difficult to be precise about the totality of the purchasers of our paper because many entities buy our paper through nominee companies. We have estimated that approximately 34 per cent of our bonds are held by domestic bank balance sheets and that probably 25 to 30 per cent are held by offshore interests, which we presume are foreign central banks. There has been a phenomenon since the Asian crisis and in particular the downgrading of some of the sovereigns in Europe for entities to find other AAA-rated issuers of paper. We have been busy trying to fulfil that role and promoting the purchase of our paper by offshore investors. We have had as much as 30 and 40 per cent of some recent bond sales going to offshore investors. The balance of our paper is sold to real fund managers, insurance companies or other types of investors.

Mr T.R. BUSWELL: It is actually very interesting, member. The WATC hosts a group of investors in Western Australia as part of a broader investment tour of Australia that is organised by someone else. They will be here in October this year. Last year when I met with them one of the more interesting organisations represented was the central bank of —

Mr J.M. Collins: We should not —

Mr T.R. BUSWELL: We cannot talk about which country it was from! It was the central bank of a European country!

Ms R. SAFFIOTI: Otherwise Kazakhstan would have been very upset.

Mr T.R. BUSWELL: I am glad Mr Collins is here; that might have been a major breach!

Mr B.S. WYATT: The Treasurer is doing very well in not answering questions.

Ms R. SAFFIOTI: I have a further question. Mr Collins talked about the search for AAA-rated bonds. What would be the impact of any downgrading of the state's credit rating?

Mr T.R. BUSWELL: It is a good question. Probably the best comparison would be between us and Queensland, which I think is AA+ at the moment. Maybe Mr Collins can provide some commentary on that and also the split between our paper and commonwealth paper, which is also AAA, if indeed there is one.

Mr J.M. Collins: There are a couple of ways to answer that question. First of all, the markets are very dynamic and a lot of factors affect the pricing of paper besides credit—there can be the supply of paper, market perceptions and so on. For instance, in the last 18 months in Queensland the spread to Queensland bonds to both commonwealth bonds and swap have narrowed. They have been issuing a lot of paper and working on a number of positive improvements, and the spreads have been coming in from where they were previously. In our particular case, if we look at 12 months ago, we were trading at very similar rates to Victoria, which is also AAA-rated and was on stable ratings. Out to about the 2017 maturity we are still fairly close to Victoria, but at the 10-year part of the curve our spread has widened relative to Victoria by about 12 to 15 basis points.

Mr B.S. WYATT: Is that because of perception?

Mr J.M. Collins: Yes.

Mr B.S. WYATT: Is there a view that the AAA rating will be lost in WA?

Mr T.R. BUSWELL: I will get Mr Collins to answer that. I imagine that Mr Collins will provide some advice that the rating agencies' commentaries around the back end of last year may have highlighted some areas of concern. Mr Collins can provide an overview.

Mr J.M. Collins: Negative outlooks were issued in 2012, first by Standard and Poor's, which, on 24 October, surprisingly put us on negative outlook. At the end of August it had reaffirmed us as stable, so the market was a bit surprised six weeks later that we were put on negative outlook. Then, of course, Moody's followed in December and put us on negative outlook. For those reasons, that is naturally going to change the perception of market participants, because it is sort of a warning sign.

Mr T.R. BUSWELL: By way of clarification for others who may be listening or who may read the *Hansard*, 10 points is the equivalent of 0.1 per cent.

Mr J.M. Collins: Correct.

Mr B.S. WYATT: Thank you, Treasurer. To follow up on that, I think Mr Collins said that the 10-year bonds are where a spread is occurring. What percentage of state debt is held in 10-year bonds?

Mr J.M. Collins: At this stage we have about $1.2 billion outstanding of our 10-year bonds.

Mr B.S. WYATT: Out of the total current as at 2012–13?

Mr J.M. Collins: As at 2012–13 we had $1.2 billion, and we had approximately $22 billion in bonds outstanding.

Mr B.S. WYATT: This may be a question for Treasury, but I will try it anyway. In light of the fact that Treasury now releases a 10-year outlook for debt, will the idea of going further into longer term bonds be considered?

Mr T.R. BUSWELL: I will get Mr Collins to comment on that but there is another driver in and around a move to longer term bonds; that is, some policy decisions on the back of some of the commentary that was made by some of the rating agencies at the end of last year. Their view was that we were a bit exposed at the shorter end of the market. I will get Mr Collins and perhaps Mr Marney to provide some more advice on what the observations of the rating agencies were and how we are responding in terms of the term of maturity of some of our paper. I might get Mr Marney to kick off on that one.

Mr T.M. Marney: Historically, our split between short term and long-term bond issues has been 50 per cent short term, so less than 12 months, and 50 per cent longer term.

Mr B.S. WYATT: Long term being greater than 12 months?

Mr T.M. Marney: Yes, but typically a maximum of 10 years. The rating agencies became quite concerned post-GFC, in an environment that had considerable risk in terms of refinancing and the availability of finance, that our portfolio was too short. That caused us two risks relative to other jurisdictions. The first was the ability to refinance short-term debt.

[9.20 am]

The second was the repricing risk for our floating rate debt; basically, the concern was that with the pricing risk being short, we were very sensitively exposed to any movements in interest rates. It was a deliberate strategy at the time, however, given that interest rates were historically quite low. In an environment where it is difficult to see interest rates going too much lower—given that there is not much left—it would be prudent to respond to their concerns but also to the market, and shift that balance of short–long. We have taken a decision to go to 30 per cent short, 70 per cent long by December 2014.

Ms R. SAFFIOTI: By what date, sorry—December 2013?

Mr T.M. Marney: By 2014. So, that is to address the refinancing risk, and also to address the pricing risk in floating rate notes.

Ms R. SAFFIOTI: How much of that 70 per cent will be 10-year?

Mr T.R. BUSWELL: I am sure Mr Marney will give us an estimate.

Mr B.S. WYATT: May you answer?

The CHAIRMAN: Through the minister.

Mr T.M. Marney: It will depend on what the market's appetite is. We would like to push some of that to 15 years, but it really depends on what we can, if you like, get away in terms of paper and what the market prices it at. Just going back to the previous question around the cost of the current negative outlook, the member asked a question about the implications of an AA-plus rating. The 10 basis points is the spread we have seen since negative outlook, and that translates to about a $9 million impact per annum.

Mr B.S. WYATT: Is that on current debt levels?

Mr T.M. Marney: Yes. As Mr Collins pointed out earlier, if we took a position more akin to Queensland's current cost of finance, the total cost would be in the vicinity of $21 million per annum. So that is an additional $12 million from where we are now.

Mr B.S. WYATT: Is that $21 million based on the Queensland level of debt; is that what you are saying?

Mr T.R. BUSWELL: What Mr Marney was saying was, relative to Victoria, which is probably the AAA benchmark for a state in Australia, on long-term paper we are—what did you say?—$9 million more expensive because of the 10 basis point shift. Relative to Queensland, which is AA-plus, with all the other factors Mr Collins pointed out that affect the rate for paper in the market, it is—what was it, $24 million?

Mr T.M. Marney: Yes; if we had Queensland-type cost of borrowing, that would cost us, in total, $21 million.

Ms R. SAFFIOTI: Therefore, $21 million for the current debt levels—so that is 2012-13 or 2013-14?

Mr T.M. Marney: That is the current debt levels on the consolidated account.

Ms R. SAFFIOTI: That is 2012-13—so as at 30 June?

Mr T.M. Marney: Yes.

Mr T.R. BUSWELL: I will just get some clarity around that. Is that the total cost across the forward estimates, Mr Marney, that separation in spread, or for one financial year?

Mr T.M. Marney: Yes, it is for one financial year.

Ms R. SAFFIOTI: But already, because of the negative outlook, that is costing $9 million per annum?

Mr T.R. BUSWELL: Approximately.

Ms R. SAFFIOTI: It is on current debt levels.

Mr B.S. WYATT: Just following on from what Mr Collins was saying before, presumably if we downgraded to AA-plus, that would have an impact on the long-term spread for the 10-year based around that perception idea the minister has discussed previously?

Mr T.R. BUSWELL: From AAA to AA-plus is almost reality.

Ms R. SAFFIOTI: Pardon?

Mr T.R. BUSWELL: Being downgraded from AAA to AA-plus, whilst it may be argued that it is perception, it is also reality.

Mr B.S. WYATT: No, but I am saying that Mr Collins said that at the moment we are AAA, but because of the negative outlook, the perception around our debt now is impacting that 10-year bond. If we did get a downgrade, that would have a further impact on the 10-year bond, and the fact that Mr Collins is nodding at me —

Mr T.R. BUSWELL: We have to understand that going onto negative outlook—or negative watch is what they call it—means there is a one in three probability that we will be downgraded to AA-plus. We would expect the market to respond in how it prices the paper, because there is a probability that that will be realised. Clearly, where they land on that will be somewhere between a Victoria and a Queensland, to use the two examples. If the Queensland outcome at AA-plus costs $24 million in terms of cost rather than basis points and we have landed at about $9 million, we can see where the market has placed us on the continuum; that is, not far off a one in three chance of being downgraded. It is an entirely rational response from the market that invests in us primarily because of our AAA status—plus they like us.

Mr B.S. WYATT: Mr Collins referred to the 10-year spread with the Victorian bonds. What is our spread with the commonwealth?

Mr T.R. BUSWELL: To make one other point, the spread with the Victorian bonds is only at the outer end of the curve.

Mr B.S. WYATT: I understand that—the 10-year bond.

Mr T.R. BUSWELL: The question about the commonwealth is really interesting. I will ask Mr Collins whether he has any information on that.

Mr J.M. Collins: On 14 August, our 10-year was 81 basis points to the commonwealth.

Mr B.S. WYATT: What was the change to that spread when we went on negative watch? The minister gave us the change between Victoria; what was the change with the commonwealth?

Mr J.M. Collins: I am using 31 July 2012, which is a month before we were reaffirmed as stable, but I would suggest that our spread at that point in time—again, there are a lot of other factors, but this is the example—in 2012, we were actually 91 points over bond.

Mr B.S. WYATT: So we narrowed?

Mr J.M. Collins: We are now 80. There are other factors. First, it is now one year closer to maturity. Before, it was a 10.5-year spread; it is now a nine-year spread, so the spread comes in with the passage of time. There are a number of factors that affect the spread.

Mr W.J. JOHNSTON: Is it the government's policy objective to retain the AAA? Is that part of the policy of the state government of Western Australia?

Mr T.R. BUSWELL: Yes, clearly, but clearly it is a challenge. I think it should be the policy objective of any government. I think Queensland made a conscious decision to not worry. Our view is that that is not our policy position. Our position is to work hard to maintain the AAA. But there is no guarantee we will achieve that, to be frank, and I have made these comments publicly. We met with the ratings agencies, as members know, a couple of weeks ago. Although they were comfortable with some of the reform actions embedded in the budget, the view I got as we departed was that their view is that these things are often easy to present in a budget paper and a lot harder to deliver in practice. Therein lies the challenge for us; it is the delivery.

Mr B.S. WYATT: So it would seem.

Mr T.R. BUSWELL: It is. It is a challenge. We work through that. They also have appropriate concerns about the sustainability of the growth in state debt, and I have talked about that publicly as well. It certainly is our policy objective, but there are certainly some pressures we are having to work through, not only me as Treasurer, but also my ministerial colleagues. We continue to focus on that very heavily.

Ms R. SAFFIOTI: It is a policy objective, but, obviously, by the demonstration of the budget that has been presented, there are other policy objectives that are overriding the retention of the AAA, including spending as much as possible in as short a time frame as possible. Surely that has to be the case.

[9.30 am]

Mr T.R. BUSWELL: As I am sure the member for West Swan will recall from previous years, I always try to conduct these meetings in a matter-of-fact way and deal with the facts before me. That is not a policy objective of government in any way, shape or form.

Mr B.S. WYATT: There was a clear change.

Mr T.R. BUSWELL: I will answer that question, member for Victoria Park. There is no doubt that it is a challenge for everybody in government. It would still be a challenge irrespective of who is in government. We have plans in place to meet that. One thing I do know, having had conversations with the ratings agencies, is if we were not able to illustrate —

The CHAIRMAN: This completes the examination of WA Treasury Corporation, minister.