Western Australian Treasury Corporation —

Mr I.C. Blayney, Chairman.

Dr M.D. Nahan, Treasurer.

Mr J. Collins, Chief Executive Officer.

Mr S. Luff, Chief Financial Officer.

Mr M. Nunes, Deputy Chief Executive Officer.

Mr B. Graham, Principal Policy Adviser.

Ms L. Di Paolo, Principal Policy Adviser.

The CHAIRMAN: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day.

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 provide a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by Friday, 19 June 2015. 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.

We are dealing with the Western Australian Treasury Corporation. I now ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

The CHAIRMAN: The member for Victoria Park.

Mr B.S. WYATT: I have fairly similar questions to those I had last year, so hopefully we should be fairly quick. The Treasurer may recall that last year I asked a question about the split of debt and who holds it. Looking at my notes, I see that last year 25 to 30 per cent was held offshore, and 35 per cent held by domestic banks with an average maturity of three and a half years, and about 80 per cent was held long-term. Is that still the case? If there has been any change, what was that change, and is that breakdown still correct?

Dr M.D. NAHAN: I ask Mr Collins to answer that.

Mr J. Collins: Broadly, those parameters still exist today. In other words, less than 20 per cent of our debt is maturing within 12 months. In fact, at the end of May, it was under eight per cent, as we have continued to work on our balance sheet restructuring. Our average maturity is between three and a half and four years, and basically 35 to 40 per cent is held by domestic banks and 25 to 30 per cent is held offshore. We have had two recent syndicated deals, including one last week in which 35 per cent went offshore and 27 per cent of that went to Asia. We had a 2020 issue of $1.1 billion in early February, and 42 per cent of that went offshore, again the vast majority to Asia.

Mr B.S. WYATT: Last year we also had a conversation about, from memory, a 12 or 15-year issuance. Mr Collins said at the time that about $600 million was on offer at that maturity. Is it still the same—around $600 million—or has that deepened? Secondly, what percentage of our debt has maturity at 10 years and beyond?

Dr M.D. NAHAN: An interesting issue I just heard from Mr Collins is that even though we borrow in Asia, it is all denominated in Australian dollars.

Mr B.S. WYATT: I think we had that conversation last year as well.

Dr M.D. NAHAN: It still is, though. I will ask Mr Collins to answer the question.

Mr J. Collins: At this stage, the longest maturity remains 2025. It is just beyond 10 years at the moment. The $500 million that we issued last week went into that, and it settled earlier this week. That brings the total up to about $1.7 billion, so we have increased the outstandings in that particular issue by $1.1 billion.

Mr B.S. WYATT: What percentage of our debt is 10 years plus maturity?

Mr J. Collins: It would be $1.7 billion divided by about —

Mr B.S. WYATT: So that $1.7 billion was the total maturing beyond 10 years?

Mr J. Collins: Yes.

Mr W.J. JOHNSTON: In respect of the Western Australian Future Fund, what was the amount earned above the cost of capital, and the breakdown of the government bonds held?

Dr M.D. NAHAN: I remember that this question was asked last year. As the member knows, the future fund is a client of the WATC. I suggest the member ask that question in the Treasury division later.

Mr B.S. WYATT: I thought that might be the case.

Mrs G.J. GODFREY: Based on the most recent syndicated bond issue, can the Treasurer provide feedback on the level of interest received from overseas?

Dr M.D. NAHAN: I will refer this question to Mr Collins.

Mr J. Collins: As I mentioned earlier, historically 25 to 30 per cent of our debt has been held offshore, but the most recent syndications have been more in the area of 35 to 40 per cent, in the last two deals we have done. We have continued to get good support from offshore.

Mr B.S. WYATT: The last three annual reports had at the beginning a very useful table showing estimated interest rate savings. I asked this question last year, and we are seeing a trend, if you like, and I am curious about why that is. This is the interest savings above the corporate bond rate. At six to seven-year maturity, in 2012 the saving was 1.13 per cent, in 2013 that declined to 0.47 per cent and that has now declined to 0.18 per cent. It is obvious where this is going. Is that a result of the negative watch that was put on? From memory, a couple of years ago Mr Collins said that effectively there was no difference between a negative watch and the actual downgrade. Effectively, for the purposes of the credit markets, the negative watch was factored into the downgrade. Is that decline in the difference between the bond rate and the corporate bond rate due to the declining credit rating, and what has the corporation seen in the price of our new borrowings since the negative watch?

[7.10 pm]

Mr J. Collins: First of all, that particular index that we referred to—interest rate savings—is difficult because the number of bonds against which we compare with is shrinking over time, so there is almost as much more impact due to the counterparties that we are comparing with than there is to our own rate. But there is a component that reflects our increased relative borrowing cost relative to where we were previously when we were AAA, and now where we stand today at AA+ on negative credit watch with Standard and Poor's. We would estimate that in the three-year part of that curve there is about a six-basis-point increase in our borrowing costs as a result of going on negative credit watch—that is compared with Victoria, which is AAA—and we probably have seen, from early April until the end of May, about an 11-point deterioration in the 10-year part of the curve. So, the range of the impact as a result of the credit watch that came into effect on 14 April and now is about six basis points in the three-year part of the curve relative to Victoria, and about 10 or 11 basis points at the 10-year part of the curve.

Mr B.S. WYATT: What impact has that had on the spread? It sounds like the six basis points is similar to when we had a downgrade last year when I put that question to the government. Last year the spread between WA bonds—this is the 10-year maturity—and Victoria was 12 basis points, and the spread of the commonwealth, again at 10-year, was 45 basis points. What is that spread now?

Mr J. Collins: In the 10-year part of the curve, it is about 21, so it has moved about —

Mr B.S. WYATT: Is this for Victoria?

Mr J. Collins: For Victoria.

Mr B.S. WYATT: And the commonwealth?

Mr J. Collins: For the commonwealth, the 10-year part of the curve would be about 67 basis points tonight. I do not have that for April, but as of last year it was 46, so it has moved a similar amount; it is about 20 basis points.

Mr B.S. WYATT: A similar difference, yes. Sorry to come back to this, but the cash impact of that six-basis-point change last year was, I think, about $70 million from memory, with debt an issue at the time. Does the Treasurer have that figure now as of a year later?

Mr J. Collins: Yes. The best way to look at it conceptually is that we have about $10 billion worth of term borrowings to do in the next financial year. Our maturity is about three and a half or four years, so a six-basis-points move would be about $6 million a year if the full amount was borrowed at the beginning of the year. So, if we borrowed this year with an average term of four years at six basis points, it would cost us an additional $24 million over the four-year period of time. Obviously, if we spread out the borrowings linear through the year, it would be $3 million in additional costs in the first year.

Mr W.J. JOHNSTON: Treasurer, I do not carry these figures in my head all the time, but I think the commonwealth is borrowing on a 10-year bond at about 4.5 per cent or something like that—am I about right? I am just trying to get a picture of what we are paying compared with what they are paying in actual figures.

Mr J. Collins: They are borrowing, at the 10 years, near three per cent.

Mr W.J. JOHNSTON: So, that puts us at about 3.67 per cent then?

Dr M.D. NAHAN: Yes; the average borrowing of ours, from my memory, is about four per cent, including stock and existing debt. Does the member for Victoria Park remember that we went through this on the Loan Bill? We showed the opposition that the average—it is published in the budget papers—is about four per cent, going down towards the low threes in the forward estimates. On average—take a trip away—in Victoria the differential is about 40 or 50 basis points, is it not, Mr Collins?

Mr J. Collins: No.

Dr M.D. NAHAN: Between Victoria and the commonwealth?

Mr J. Collins: Oh, Victoria and the commonwealth? Yes.

Mr B.S. WYATT: The difference between Victoria and the commonwealth is —

Dr M.D. NAHAN: It is 40 or 50.

Mr W.J. JOHNSTON: We have plenty of time here so I hope we are not consuming too much on one question, but this is quite interesting stuff. Is there an expectation that as interest rates start to climb in the future—as sure as night follows day at some time, I do not know when, we would expect interest rates to rise—would the Treasurer therefore expect the spreads to rise as well?

Mr J. Collins: Probably there would be a tendency for the credit spreads to rise when interest rates are rising, yes. So, generally if corporate bonds spread to swap into bonds it would probably rise; that is what has typically happened in the past. But there is a range of factors that impact that specific issue.

Mr W.J. JOHNSTON: I have a fresh question. Obviously, Western Australian Treasury Corporation is borrowing for all government agencies: is there anybody that WATC does not borrow for?

Mr J. Collins: Off the top of my head, I am not sure what government entities in WA would not borrow from us because of the pricing advantages that we continue to offer them. Certainly local governments have the ability to borrow externally, but again we usually offer an advantage to them from a pricing standpoint, and universities also, particularly for commercial aspects of their business, can borrow.

Mr W.J. JOHNSTON: I was not thinking about local government, but as to universities my memory is that the WATC is now charging them the same fee it charges all the other agencies.

Dr M.D. NAHAN: Yes; we increased it to 70 basis points—my memory is that it was about 20 before that. They do have—it depends on which university—quite a bit of borrowings outside WATC; they vary.

Mr B.S. WYATT: The Treasurer may not know, but he said that the universities borrow outside of WATC. Does the Treasurer know if the majority borrow through WATC or would he not know that?

Dr M.D. NAHAN: I would not know that.

Mr B.S. WYATT: Does the Treasurer know, and is he able to tell us—I assume probably not in light of the future fund conversation we have had—the amount of borrowings by the universities through WATC?

Dr M.D. NAHAN: Yes, we can; it is in the annual report.

Mr B.S. WYATT: In the university annual report?

Dr M.D. NAHAN: No; WATC lists all the major borrowers.

Mr J. Collins: At the back of the annual report.

Mr B.S. WYATT: What are the total borrowings? Does the Treasurer know, just while we are here, to save me flicking through WATC's very interesting annual report?

Dr M.D. NAHAN: Be precise, Mr Collins!

Mr J. Collins: About $319 200 000.

Mr B.S. WYATT: Is that over all the universities? Does any university not borrow through WATC?

Dr M.D. NAHAN: I cannot answer that.

Mr J. Collins: I do not have that detail here, but if the member for Victoria Park goes through the annual reports he can check to see how much each of the universities has.

Mr W.J. JOHNSTON: I have a question on this issue, but I am looking at a different customer—it is Keystart. My memory is that the government does not charge the fee to Keystart because of the nature of that organisation, so I am just confirming that the government still does not charge it.

Dr M.D. NAHAN: No. It was zero uplift and we increased to 70 basis points, but that is not being passed on to the customers.

Mr W.J. JOHNSTON: So the government is charging them?

Dr M.D. NAHAN: But it is not being passed on to the customers. We are charging the entity, and they are still retaining the policy of having the weighted average interest rates of the big four banks. It is not being passed on.

Mr W.J. JOHNSTON: In respect of Keystart, the government is now charging it the 70 basis points, which it used not to do?

Dr M.D. NAHAN: Yes.

Mr W.J. JOHNSTON: That is fair enough. I am trying to work out how to ask this without getting into the question of the customer. The government proposed selling the loan book, so there is going to be an interaction between that decision and the continued arrangements between that entity and WATC.

[7.20 pm]

Dr M.D. NAHAN: Firstly, Keystart is running the securitisation process. We have not had any details on it yet. There have been a lot of discussions with other parties and the advice I have is that there is quite a bit of interest in it. However, I do not see how it will affect Keystart's relationship with Western Australian Treasury Corporation in terms of new borrowings.

Mr W.J. JOHNSTON: In respect of the published figures on that debt, it is a Treasury question, but —

Dr M.D. NAHAN: Yes, I will answer that.

Mr W.J. JOHNSTON: — those borrowings for Keystart are not part of the net debt, because they are exactly balanced by an asset.

Dr M.D. NAHAN: Yes, they will reduce gross debt, but not net debt.

Mr F.M. LOGAN: Has WATC or the Treasurer given any advice to Keystart on the securitisation proposal?

Dr M.D. NAHAN: We gave Keystart approval to start the process—advice; we are awaiting advice from it and I am sure from Treasury too, of course. For WATC, I pass to Mr Collins; have there been discussions with Keystart on the securitisation of the debt?

Mr J. Collins: Not in recent times.

Mr B.S. WYATT: Is there a time frame on that?

Dr M.D. NAHAN: Yes, there will be. We do not know what it is. We assume we will securitise it in $250 million tranches and the market has to be tested. There is interest in it. It can be done in many ways. It can be sold to the banks, which have expressed a great deal of interest in it, or it can be put in products that superannuants might want to purchase. There is a lack of bonds and other issues for superannuants right now. We are waiting for advice from Keystart on this one.

Mr B.S. WYATT: This comes back to a comment made by Mr Collins a while back in response to the question I put about the comparison in the estimated interest rate savings. He made the point that there is not much to compare our debt with. The way I understand the estimated interest rate saving is that it is in respect of the corporate bond rate. Correct me if I am wrong; I am just trying to understand. Is it not simply just a comparison of our debt with a bank bond? I am not sure. What is the comparison?

Mr J. Collins: A number of entities have debt outstanding as at 30 June and it goes beyond the year past for each of those buckets. Because Australia has such a small corporate bond market, which is shrinking to some extent, banks are included in what we call supranational, sovereign and agencies, which are guaranteed entities such as the KfW Group. A range of entities out there have bonds that trade in Australia in those maturities, but there is a decreasing number in each one of those maturities and some of those bonds are not as liquid. As a result, the comparisons are still there, but, for instance, in July 2002 there were 16 AAA entities spread out across those buckets and in May 2015 there were three. There were four AA+ entities in July 2002 and there are four now; there were five AA entities and there is one now; and there were seven AA– entities and now there are six. The total number of bonds in that pool in 2002 was 32 and there were 14 in May 2015. There is a declining pool of each of those segregations. It is not like going to a really liquid bond market where there are lots of opportunities to compare against lots of different entities in each of those maturity buckets.

Mr B.S. WYATT: I thank Mr Collins. Going back to something Mr Collins said a while ago, I think he said that about 35 per cent of our debt is offshore. I am not asking Mr Collins to say who holds it, but is there one particular entity, organisation or nation that holds that debt or is it spread amongst a significant number? I would like to know whether there is one that holds 80 per cent and the rest makes up the numbers.

Mr J. Collins: No.

Mr B.S. WYATT: So, no, there is not one that holds a significant majority or percentage of the offshore debt.

Mr J. Collins: Correct. The biggest individual holders of our paper we presume would be the four major banks in Australia, which are required to hold semi-government paper for their high-quality liquid asset portfolios. The offshore component is a range of central banks, insurance companies, pension funds and fund managers, so that combination is reasonably well fragmented geographically and across industry.

Mr B.S. WYATT: Just by way of supplementary —

The CHAIRMAN: Direct your question to the Treasurer, please.

Mr B.S. WYATT: I am looking straight at him!

Is that a policy of government in terms of how it issues its debt? For example, the member for Belmont asked a question about interest offshore. If there was huge interest offshore, could government effectively sell all its debt offshore or is there a policy of government to ensure that of any particular issue, there is only 30 per cent maximum?

Dr M.D. NAHAN: We take advice from WATC, so maybe Mr Collins can provide some of the arguments put forward.

Mr J. Collins: We are trying to get the lowest interest rates we possibly can for the state of Western Australia and we see that the best way to do that is to broaden interest in buying our paper onshore and offshore. Although we do not have a policy to diversify per se, we are trying to increase the number of buyers to the paper and we basically auction to whoever is bidding us the lowest yields at any point. We find that the more we market and broaden the investor base, we get better success with that. Does that answer the question?

Mr B.S. WYATT: It does, and I think I understand. I find the process of auctioning the paper interesting. Now we have gone from a AAA credit rating to AA+ on negative watch, how has that impacted that auction process? I assume we now have to take a less advantageous interest rate.

Dr M.D. NAHAN: I guess the two issues are the cost and the level of interest in the demand.

Mr J. Collins: I think earlier we discussed what the pricing implications have been with the change and, yes, there probably is a change in the purchasers of our paper. Some entities out there have restrictions to buy only AAA, but other entities want the slightly higher yield that we have, so there might be a slightly different investor base, but most of the investors are the same.

The CHAIRMAN: That concludes the examination of the Western Australian Treasury Corporation.

[7.30 pm]