

**Western Australian Treasury Corporation —**

Mr I.M. Britza, 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.

Ms L. Di Paolo, Principal Policy Adviser.

[Witnesses introduced.]

**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 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 principal clerk by Friday, 3 June 2016.

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 give the call to the Member for Victoria Park.

**Mr B.S. WYATT:** I will just confirm something. Last year, the Treasurer may recall that questions about the Western Australian Future Fund were better asked to Treasury as opposed to the Treasury Corporation. I think that the questions are best asked to Treasury tomorrow as opposed to now to the Treasury Corporation.

**Dr M.D. NAHAN:** Okay.

**Mr B.S. WYATT:** Is the Treasurer happy enough with that?

**Dr M.D. NAHAN:** Yes.

**Mr B.S. WYATT:** Over the years, this has become an issue. I thank the Treasurer.

My first question will no doubt be very easy for Mr Collins to answer. I ask it each year and it is about the make-up of our debt at the moment. Last year, Mr Collins advised us that less than 20 per cent of WA debt matured in 12 months and then it shifted to longer term debt. Can Mr Collins give us a run-down of whether the average maturity is still broadly the same as last year and, as he is going, can he perhaps give the percentages held by domestic and offshore holders of that debt?

**Mr J. Collins:** Yes, broadly it is very similar to last year. Our debt maturing within 12 months is well under 20 per cent; I think it is around 15 per cent to 16 per cent at the moment, the reciprocal of that being the percentage that is long-term debt; somewhere around 83 per cent is now long-term debt.

**Mr B.S. WYATT:** Sorry to interrupt. From memory, Mr Collins described that as being over three years' maturity, or was it five?

**Mr J. Collins:** No, we would describe that as anything over 12 months.

**Mr B.S. WYATT:** Okay. Mr Collins can keep going.

**Mr J. Collins:** Also, of the make-up of the debt, approximately 25 per cent is held by offshore counterparties, with 75 per cent held onshore. Basically, a little over 50 per cent is held by domestic banks as part of their high-quality liquid asset portfolios.

**Mr B.S. WYATT:** A little over 50 per cent.

**The CHAIRMAN:** Let him finish, and then you can ask the questions.

**Mr J. Collins:** Over 50 per cent is held by domestic banks for their high-quality liquid asset portfolios, which is not too dissimilar from most of the other state central borrowing authorities. Our offshore component is made up of central banks, sovereign wealth funds, fund managers and insurance companies.

**Mr B.S. WYATT:** How much debt is maturing beyond 10 years?

**Mr J. Collins:** I would also just add to that that a vast majority of the offshore investors come from Japan. Tokyo is probably the biggest city of investors for us outside of Sydney. The longest that we have at the moment is just a little over nine years, which is still the same issue we had maturing last year.

**Mr B.S. WYATT:** The one we talked about last year was some \$600 million or something.

**Mr J. Collins:** It was a 2025 maturity bond. Last year we had \$1.7 billion outstanding in that maturity and we now have about \$3.1 billion, so we have sold more into that and that issue makes up about 7.5 per cent of our total debt at this stage. In the next few months, we are also looking at issuing a 2027 maturity bond, so we expect to have a longer issue outstanding before long.

**Mr B.S. WYATT:** How much will be issued into that 2027 maturity bond, or are we still uncertain?

**Mr J. Collins:** With all of our issues, now we are trying to manage between \$3.5 billion and \$4.5 billion, so ultimately it will grow to that size, but the initial size would probably be somewhere between \$500 million and \$750 million in the initial tranche.

**Mr W.J. JOHNSTON:** In other years, we have discussed the spread between WA bonds and Victorian and commonwealth debt. In 2014, the spread was 12 points against Victoria and 25 points against the commonwealth. Last year was 21 points against Victoria and 67 points against the commonwealth. I wonder what the updated figures are for us now.

**Mr J. Collins:** The records that we have are the WATC spreads compared with the Treasury Corporation of Victoria. On 27 May 2015, which was the last time we had information for the member, the three-year spread was 15 basis points and the 10-year spread was 32 basis points.

**Dr M.D. NAHAN:** That was last year.

**Mr J. Collins:** As of close of business yesterday, the three-year spread had widened to 16 basis points from 15, so it was one basis point wider, and the 10-year spread had widened six basis points to 38.

**Mr W.J. JOHNSTON:** That was in Victoria. What is the commonwealth spread?

**Mr J. Collins:** I would prefer to get back to the member with the specifics of the commonwealth spread, but there are other drivers with the spread between our paper and the commonwealth because the commonwealth has been issuing a lot more paper over the last two years, and our spreads compared with the commonwealth spreads have actually narrowed. When I last saw them year-on-year, our 10-year spread had narrowed by about two or three basis points, and I think Victoria's have narrowed by 15 or something.

**The CHAIRMAN:** Please clarify what supplementary information you will provide, Treasurer.

**Dr M.D. NAHAN:** We will provide the latest data on spreads between the WATC and the commonwealth's paper.

**Mr W.J. JOHNSTON:** For three years and 10 years.

**Mr J. Collins:** We will provide that for three and 10 years, and as of 27 May last year and 23 May this year.

[*Supplementary Information No B34.*]

**Mr B.S. WYATT:** In the annual reports of previous years there has been a table that shows the interest savings above the corporate bond rates for, from memory, 10 years. Mr Collins is probably in a better place to confirm that. Last year, the interest saving on the six to seven-year maturity was a 0.18 per cent difference. What is that difference now?

**Dr M.D. NAHAN:** In the WATC annual report it is disclosed that in previous years the differential —

**Mr B.S. WYATT:** I am asking about interest savings above the corporate bond rate from WATC debt.

**Mr J. Collins:** The first thing that I would say is that that particular KPI, which was one of our six KPIs, was originally constructed to demonstrate how much savings are for centralised borrowings. In other words, we were trying to approximate the savings between us borrowing for all of WA, and Western Power and each of those entities. The way we tried to construct that was by trying to find bond issues of similar size and put that matrix together. The unfortunate thing is that the number of entities out there that provide debt to the market is very small in Australia. Although it provides a guide, to use that for any other purpose is perhaps not warranted because we cannot read the spread differentials in it, because there is as much of an impact in which bonds are on the other side and how those spreads have changed. I think we are better off looking at the spread movements in other manners, such as in the member's previous question.

[7.10 pm]

Mr Ben Wyatt; Dr Mike Nahan; Mr Bill Johnston; Ms Libby Mettam; Mr Matt Taylor; Chairman

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**Mr B.S. WYATT:** Noted. The interest rate has been declining from 1.13 in 2012 to 0.47 in 2013 to 0.18 last year. What is the figure now, noting the qualifications that Mr Collins just gave us?

**Mr J. Collins:** We provide an update to these numbers on page 5 of our March quarterly report. What did the member ask?

**Mr B.S. WYATT:** The six to seven year figures, and I will look at the rest.

**Mr J. Collins:** A rating of AA+ is 33 basis points.

**Mr W.J. JOHNSTON:** Minister, I imagine that as interest rates decline, the spreads also decline, but equally if interest rates start to move up, the spreads also start to move up. Is that an accurate assumption?

**Mr J. Collins:** Similar to the answer I provided last year, that would be the case and happily rates have fallen markedly since I was last here, so that has had a beneficial impact on spreads this year.

**Ms L. METTAM:** Could the Treasurer provide some commentary on the market for the Western Australian Treasury Corporation's bonds and the impact of our credit rating on the cost of borrowing?

**Mr J. Collins:** Basically, we have estimated that over the past 12 months relative to Queensland, which is our nearest sort of peer—it has a similar sized program and similar ratings—our pricing has probably gone up by an average of three basis points. If we put a dollar figure on that, we are expecting to borrow \$8 billion this year in term borrowings. That would be \$2.4 million in increased interest expense as a result of the spread's widening this year. Obviously, over the forward estimates it would be four times that, which is \$9.6 million.

**Mr B.S. WYATT:** That is for new borrowings. I assume that as debt matures and we seek to roll it over—assuming there is no change to the credit rating, of course—it would capture greater proportions of the debt.

**Mr J. Collins:** That \$8 billion that I was referring to includes both the new money required for the upcoming year and any maturities that are occurring in 2016–17.

**Mr B.S. WYATT:** How much debt matures in the next three years in monetary value?

**Mr J. Collins:** We have debt of approximately \$10 billion maturing in the following year and then around \$5.5 billion the two years after that.

**Mr W.J. JOHNSTON:** The WATC charges 70 basis points to the agencies that borrow through WATC; I think it has a loan guarantee charge. How much income is generated by that fee?

**Dr M.D. NAHAN:** This has been a policy for quite a few years, and I will defer to Mr Collins about the exact amount. This policy debate started in the 1990s. Governments can borrow very low, as the member knows, and one of the reasons that they can borrow low is that the volume means it is low risk, but it is also because they have the power of tax to pay for it. When the state borrows on behalf of a public trading enterprise, that does not give the state a signal of the risk associated with it, so this is a policy instrument. It is also a revenue collection mechanism. We expanded that last year to some other borrowers that borrow through WATC. There is a real issue here that the member for Cannington should think about. Indeed, it is important when we get into public sector comparators for public–private partnerships. If we have to borrow for an entity such as, let us say, Western Power, what should the risk to the state ownership of that be?

**Mr W.J. JOHNSTON:** I will get to that in a second.

**Dr M.D. NAHAN:** I know. I am providing some background because I thought that was where the member was going. Right now, 70 basis points is a very imprecise indication.

**Mr J. Collins:** The first thing I want to make clear is that the 70 basis points are collected by WATC but paid to the Department of Treasury in its consolidated account, so I do not have at my fingerprints the amount of that funding because we collect and pay. Again, the better time to ask the question is probably when the Department of Treasury is before the committee, because it is the ultimate recipient of that funding.

**Mr B.S. WYATT:** Could we get that by way of supplementary information?

**Dr M.D. NAHAN:** The member can ask Treasury tomorrow.

**Mr W.J. JOHNSTON:** Will it answer us?

**Dr M.D. NAHAN:** Yes.

**Mr W.J. JOHNSTON:** Then I am happy to move on. It is directed to what the minister was referring to. The Western Australian Treasury Corporation charges 70 basis points against Western Power, the City of Canning and the University of Western Australia, which are all paying the same fee, but as the minister says, that does not necessarily recognise the risks that are involved in each of those agencies. I wonder whether there has been any analysis of the risk profile of each different borrower.

**Dr M.D. NAHAN:** There has been a lot of debate about that. The WATC has nothing to do with that. It is the collector. It is a Treasury issue and the WATC passes it back to Treasury. There has been a lot of discussion recently about whether we should have a differential. How do we measure the risks associated with, let us say, a university or a local government—which can be high-risk, I can tell members—or Western Power, and the 70 basis points are an imprecise mechanism. Even though it is an imprecise mechanism, it is a signal that the state is bearing a risk premium when it lends to these agencies. It is imprecise and, of course, it should not be uniform, but the question is: on what basis do we estimate differentials? By the way, Britain started this debate years ago, and I was told that it goes to differentials according to different assets.

**Mr B.S. WYATT:** It is an interesting point. Has it always been 70 basis points?

**Dr M.D. NAHAN:** No.

**Mr B.S. WYATT:** Secondly, how does it compare with other states? I assume other states have the same issue as we have here. How do we work this out and say it is not a reflection of the actual risk but allowing for a risk signal, if you like?

**Dr M.D. NAHAN:** I think it has been 70 basis points for the government bonds for a while; I cannot say how long. We increased it to 70 for universities and maybe local government a year ago or so. Other states all do this to some extent.

**Mr B.S. WYATT:** Is it about the same level?

**Dr M.D. NAHAN:** I cannot answer that. New South Wales used to have differential rates between different classes of businesses. Whether it does now, I do not know. It has sold most of them. Of course, Victoria sold virtually all its government bonds but it does it. We are one of the few states to allow borrowing on behalf of local government. We are one of the few states to borrow on behalf of universities. From memory, we are the only state that borrows for universities; therefore, they do not have that.

[7.20 pm]

**Mr B.S. WYATT:** Does local government have to use the Western Australian Treasury Corporation or can it borrow elsewhere?

**Dr M.D. NAHAN:** Neither universities nor local governments have to borrow from us.

**Mr B.S. WYATT:** This may be outside all of our knowledge range without looking at annual reports, but do we know what percentage of university and local government borrowing is done through the WATC?

**Dr M.D. NAHAN:** No, we do not. We do not have any knowledge of the aggregate borrowings of universities.

**Mr W.J. JOHNSTON:** I want to ask about one of the Treasury Corporation's clients, Keystart. A discussion is going on with Keystart about selling part of its loan book. Obviously, it has borrowed from the Treasury Corporation and the Treasury Corporation has borrowed from whomever. It may not be something that the Treasurer is aware of, but is the intention that when Keystart sells its loan book, it will repay the debt to WATC, or will it use that to create a new instrument for loans in its balance sheet?

**Dr M.D. NAHAN:** We have two policy approaches underway for Keystart. As a bit of background, Keystart was quite small—I think about \$1.5 billion to \$1.7 billion—till the global financial crisis hit. Then it underwrote a lot of investment because the banks backed out. We put a cap of \$5 billion on aggregate borrowings; it was approaching that. We had a policy of putting 40 per cent of Keystart's book into what is called equitable placing—anyway, a transfer. That process is underway. We thought it was going to be more but we decided on \$1.6 billion, and that will be used to reduce gross debt. It impacts only gross debt, not net debt, because there are assets behind it. That will be used to defray debt through WATC on behalf of Keystart. That does a couple of things. It reduces aggregate borrowing and allows Keystart to grow again, so it creates space in our \$5 billion ceiling. We are also looking at policies. Right now, Keystart borrows the whole amount. If a client goes to Keystart, generally 100 per cent of the loan is through Keystart and, therefore, WATC. Other states do it differently. The main benefit of Keystart is to provide a lower deposit of two per cent rather than 20 per cent. We are basically borrowing money to provide an 18 per cent differential. We are looking at some reforms to allow us to continue Keystart without the indebtedness on it, but we have made no policy decisions on that yet.

**Mr W.J. JOHNSTON:** In past years—I do not remember whether you were the Treasurer or it was another Treasurer—because Keystart had an asset to back the debt, it was therefore not counted as part of the net debt; I understand that. Is the intention here to effectively securitise—I suppose that is another way of putting it—part of the loan book so that we have some more headroom?

**Dr M.D. NAHAN:** Yes; the term is equitable placement.

**Mr W.J. JOHNSTON:** Sure, but it is to create the headspace; it is not to reduce the overall activity.

**Dr M.D. NAHAN:** No, that is right.

**Mr W.J. JOHNSTON:** Therefore, it does not reduce the exposure of WATC to the housing market.

**Dr M.D. NAHAN:** The loans will be equitably placed with another agent—a financial institution, and a number of them are bidding for that—and that will give scope, within the cap, for Keystart—the Department of Housing to lend more. It will also reduce our gross debt by the amount of, we think, \$1.6 billion—it might be a little bit more, but not much. Keystart will remain the agent for the loans or the contact for the loans, but it will also take the gross liabilities off WATC’s balance sheet.

**Mr W.J. JOHNSTON:** To clarify that, I am interested in whether the government is trying to reduce WATC’s exposure to the residential property market or whether it is simply trying to create headspace. It sounds like it is trying to create headspace.

**Dr M.D. NAHAN:** It allows us to do both. We want to create headspace but, by creating headspace, it gives us a chance to alter the risk. We have not done it yet, so let us see where we go. Keystart is an integral part of the affordable housing strategy of the Department of Housing and our intention has played a major role in this, and we intend to continue it right now.

**Mr B.S. WYATT:** I have a quick follow-up question. Finally, Treasurer, what is the status of that? I think when we last talked about this last year, the Treasurer talked about effectively securitising it into lots of \$250 million, from memory. Where is that process at?

**Dr M.D. NAHAN:** It is with Treasury. Treasury has gone out and got a number of bidders, and they are in negotiations.

**Mr B.S. WYATT:** Does the Treasurer have a vague timetable of when that is likely to be completed?

**Dr M.D. NAHAN:** I can get back to the member on that. I have been briefed on it but I was not told when the final recommendation is expected to be made. It is not very far off.

**Mr M.H. TAYLOR:** I want to go back to the original topic of bonds. In the most recent bond issue, can the Treasurer explain a little bit about the interest from overseas?

**Dr M.D. NAHAN:** As the chief executive officer flips through his papers, I will say that I did an overseas tour with WATC to China, Korea, Japan and India. The remarkable thing is the dominance of the Japanese investment into Western Australia and the potential for China going forward on that. I do not think there will be too much take-up from India for a while.

**Mr J. Collins:** Our recent 2022 bond, which we issued in April, had 20 per cent overseas interest and it was spread out. We had about eight per cent from Asia, seven per cent from the Americas and five per cent from Europe and the United Kingdom; 80 per cent of that came from onshore. We now have about \$9 billion of floating rate notes and most of those—probably 90 per cent—are held domestically and they go directly into bank high-quality liquid asset portfolios. As an example, only three per cent of that \$750 million went offshore. Prior to that, in October 2015, we added \$600 million to our long bond—the 25 bond—and 12 per cent of that went overseas. The numbers from overseas are still there but it is probably less than it was 12 to 24 months ago.

**The CHAIRMAN:** Members, we have only a couple of minutes. If we finish, we have to wait till 7.30 pm.

**Mr B.S. WYATT:** I will ask a question then.

**The CHAIRMAN:** Thank you, member for Victoria Park.

**Mr B.S. WYATT:** Mr Collins and I had a conversation last year, Treasurer, around the fact when we had a credit rating downgrade, there was a change in the purchasers of our paper. Has there been any further change in that? Obviously, some purchasers are limited to AAA et cetera. Has there been any further change or shift? Obviously, there has been a shift in the percentage of our debt being held by domestic banks; it seems to have increased dramatically since last year. I am interested to know whether there has been any other change.

**Mr J. Collins:** That is probably the main change and it is driven by the economics because the banks have to hold either commonwealth bonds or state semi-government paper for their high-quality liquid assets, which is a percentage of their total assets. As we discussed earlier, our yield relative to that of the other states has heightened, so we have the best value—the highest yielding—asset that they can put into those portfolios. As a result, we are seeing more interest from those domestic bank portfolios. Also continuing on from last year, some offshore portfolios in particular restrict their holdings to AAA, so some entities that were buying our paper three years and five years ago probably are not buying our paper now. But, like the banks, other entities offshore prefer the higher yield, so some that were not buying our paper three years and five years ago are now buying our paper. There has been that natural shift.

**Mr B.S. WYATT:** I can see why the Japanese are so interested.

**The appropriation was recommended.**

**Extract from *Hansard***

[ASSEMBLY ESTIMATES COMMITTEE B — Tuesday, 24 May 2016]

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Mr Ben Wyatt; Dr Mike Nahan; Mr Bill Johnston; Ms Libby Mettam; Mr Matt Taylor; Chairman

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[7.30 pm]