Western Australian Treasury Corporation —

Mrs L.A. Munday, Chair.

Mr M. McGowan, Treasurer.

Mr R. Moulton, Chief Operating Officer.

Mr S. Morhall, General Manager, Client Services.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available online as soon as possible within two business days. Questions must relate to the operations and budget of the off-budget authority. The chair will allow as many questions as possible. Questions and answers should be short and to the point.

A minister may agree to provide supplementary information to the committee. I will ask the minister to clearly indicate what information they agree to provide and will then allocate a reference number. Supplementary information should be provided to the principal clerk by noon on Friday, 2 June 2023. If a minister suggests that a matter be put on notice, members should use the online questions on notice system to submit their questions.

Leader of the Opposition.

Mr R.S. LOVE: I refer to page 146 of budget paper No 2 and the discussion under the heading "Environmental, Social and Governance (ESG) Considerations". Paragraph 13 refers to ESG debt instruments having grown significantly. I am wondering whether it is possible to quantify the percentage of government borrowings needed to have those types of ESG-supporting instruments.

Mr M. McGOWAN: Which page was that, sorry?

The CHAIR: Page 146.

Mr M. McGOWAN: I might get Mr Morhall to comment on the Leader of the Opposition's question.

Mr S. Morhall: Within Western Australia, under the ESG banner, we have yet to actually issue any debt within that space. We recognised some time ago—back in late 2020, early 2021—that this was an ongoing requirement or need for investors, so we set about developing an environmental, social and governance information pack, which was released by the Premier back in November 2021 and subsequently updated for the May 2022 budget. That document signalled the Western Australian Treasury Corporation's—the state of Western Australia's—intention to issue under that banner.

Subsequent to that, we have also engaged a third party to provide a second-party opinion and have developed a sustainability bond framework for the state. The framework describes how WATC will meet required global standards for issuing ESG bonds or green, social and sustainability bonds to support the WA government's ESG objective. This involved extensive coordination across government to assess eligible projects. Once approved through the state budget, government oversight is provided by the portfolio oversight group for climate action and environment, which reports to the Ministerial Taskforce on Climate Action. We recently released the ESG framework and had a global ESG research firm, Sustainalytics, a second-party opinion provider, work through it. That process was rigorous and required coordination across the WA government. As a result of that, the bond framework was released very recently.

At the moment, the Under Treasurer and the WATC CEO are in Asia doing a marketing program for Asian investors and we have two other representatives in Europe doing a marketing program for European investors on the ESG bond or potential issue, so, hopefully, relatively soon, we will issue under that banner.

Mr M. McGOWAN: Just to expand on that, the CEO of WATC is currently in Japan talking with potential investors and so forth. When I was in Sydney the other day, we met with Moody's—this is something of interest to it—in terms of upgrades. We were able to talk about the renewable energy investment in the budget, nearly $3 billion, which is a subject of considerable interest to Moody's, as is the fact that we are not going to be cutting down our native forests anymore and some of our governance arrangements, including improvements in transparency in some of the legislation we have passed—those sorts of things. Renewable energy, the desalination plant and the plantation program are also the sorts of things Moody's is interested in. WATC expects to issue a green bond by the end of the current financial year, of which we expect some take-up.

As I said to the Leader of the Opposition, we are a government that has not as much interest in it from investors because we have declining levels of debt; they like governments with more debt, because then they get more opportunities to finance that debt and therefore make more money. Having said that, they are very complimentary about our performance and the fact that we are doing these things, particularly the green bond. Our significant investments in environmental initiatives and other social initiatives give us a stronger prospect of Moody's upgrading our credit rating to the perfect level, which is where Standard and Poor's currently has us.

Mr R.S. LOVE: Will the green bond that the Treasurer refers to wrap up a particular project or stream of projects for funding—for instance, a big battery or something? Will the government look for a bond or fund specifically for that project, or is it more about presenting a particular profile to the general market?

Mr M. McGOWAN: The advice I have is that it is a pool of projects. We will include transport infrastructure within it, particularly rail, to reduce emissions and improve amenity. We will also be reducing emissions from the electricity network, particularly through the big battery and the wind farms, and enhancing climate resilience through the new desalination plant. Those are the three main ones that we have included within the pool of projects under the green bond. I might ask for further expansion from either Mr Morhall or Mr Moulton.

Mr R. Moulton: The projects are assessed to ensure that they meet the requirements of the sustainability bond framework. There is a governance process around that. The projects are identified and they have a period of a short look-back—money that has been spent—and a look-forward to money that is forecast to be spent on specific projects. The governance around that is across government and that is then communicated to the investors, who then invest in the green bond. There is then an ongoing reporting requirement on the performance of those projects in terms of what the expectations were.

[12.30 pm]

Mr R.S. LOVE: Would the strong ESG statement result in any difference in the expected interest payment, or would it just be the ability to more easily find an investor?

Mr M. McGOWAN: I might get Mr Moulton to answer, but the broad advice I have is that because our performance has been so strong, upgrades are largely built into the assessments the credit rating agencies do now, even though our credit rating may not have been upgraded. This improves the prospects of an upgrade to the credit rating. If both Moody's and Standard and Poor's give perfect assessments, it improves our capacity to borrow—there are limited issues to borrowing. It sends a message to the broader investment market in Western Australia, not just in bonds—for projects, construction, mining or whatever it might be—that this is a safe place to invest because the government is less likely to make wilder or more significant revenue decisions that could impact potential investors in projects in Western Australia because our finances are under control. It means we are a lower sovereign risk jurisdiction. I ask Mr Moulton to comment further.

Mr R. Moulton: Specifically in relation to the rates, we do not anticipate a materially different interest rate outcome, although it also provides the opportunity to reach a broader pool of investors, particularly those who are focused on this particular area. We are hopeful that it will broaden our investor base as much as anything else.

Mr R.S. LOVE: Typically, how long does the Western Australian Treasury Corporation anticipate it would be before a bond reaches maturity? What turnover is there in the state's debt portfolio?

Mr R. Moulton: Generally, we hold our bonds to maturity. Part of having a diversified maturity profile, if you like, of bonds is that it reduces refinance risk, so all the bonds do not mature within a short period; it is diversified over a period. We would generally hold the bonds to maturity. As they start to get closer to maturity—within the two years, 18 months, 12 months—we will start to be more active in looking to buy them back so that the level of refinance risk is reduced. Generally, they are held to maturity.

Mr M. McGOWAN: Who are they held by?

Mr R. Moulton: They are held by a range of investors.

Mr R.S. LOVE: In terms of the state's exposure to increased costs from interest payments from increasing interest rates around the world, what is the forecast for a year-by-year increase in our interest burden as some of those long-term instruments come to an end?

Mr M. McGOWAN: Page 3 of budget paper No 3, table 1, assesses the consolidated account borrowing interest rates. For the current financial year, the assessment is 3.3 per cent; in 2024–25, 3.1 per cent; in 2025–26, 3.1 per cent; and in 2026–27, 3.1 per cent. That is the assessment; as the Leader of the Opposition knows, interest rates can change. That is the beauty of having declining debt levels and, therefore, a higher credit rating and a lower interest rate. As debt levels go down, even if interest rates climb, interest payments can be reduced, which is basically what happens with a household. We assess the interest rates based upon each of the big four Australian banks, expectations of the future path of the Reserve Bank of Australia's cash rate and the Australian government bond three-year and 10-year fixed rates. WATC also produces a high scenario to allow sensitivities to be calculated. The approach to producing the high path is to add an increasing spread to the expected path for each point across the interest rate maturity curve—90 days, 180 days, three years, five years and 10 years—at each successive quarter. I assume the Leader of the Opposition has processed all that and will have a question on that maturity curve!

Essentially, as I said, we are putting out a new bond. The most important thing we are hoping, although it does not get great attention, is for Moody's to upgrade us because it means we are a lower sovereign risk jurisdiction and any potential increases in interest rates based upon other factors will be minimised by that. It is also a great demonstration to the international investment community that we are one of the few subnational jurisdictions in the world with essentially a AAA credit rating from both major credit rating agencies. The Australian government has a AAA rating from both, even though it has nearly $1 trillion of debt; New South Wales has a AAA rating from Moody's; and Western Australia has a AAA rating from Standard and Poor's. All other states have something less than that. We do not know what will happen with New South Wales' AAA credit rating from Moody's. I assume it is waiting for the New South Wales budget in September. New South Wales' debt climbed significantly just by selling off nearly all its assets. It did that thing called asset recycling, which was a buzzword a few years ago. It was meant to keep debt low and build infrastructure, but that did not happen. It now has a very high debt level and infrastructure that has blown out significantly in cost and it has lost its assets.

Ms L. METTAM: Page 321 of budget paper No 3 refers to WATC's borrowings. What is the current breakdown of debt and who holds it, including offshore domestic banks and long-term debt?

Mr R. Moulton: Page 326 refers to the holdings of WATC debt. The footnote states that it can be difficult to get exact numbers because investors can hold in proxies and, therefore, it can be difficult to get an accurate view. It is estimated that about 58 per cent of our bonds are held by Australian banks to meet their regulatory obligations as their high-quality liquid assets. We spoke earlier about the offshore perspective and a green bond; we estimate that between 15 and 20 per cent of our bonds are held by offshore investors.

Ms L. METTAM: How has that composition changed over time, if at all, and what is the average maturity length?

Mr R. Moulton: We saw some reduction in offshore investors in our holdings during the pandemic period—not materially. We estimate it is between 15 and 20 per cent; it may have been 25 to 30 per cent, but not a material reduction. As mentioned, we are hopeful that will increase with things such as the sustainable bond, or green bond, which attracts a broader group. The average maturity of our debt runs at 3.8 to four years. As the member would appreciate, it varies as time moves on and debt comes closer to maturity.

[12.40 pm]

Mr M. McGOWAN: We will have to continue to borrow for a considerable period. Debt matures. New debt and bonds are issued as debt goes down. I do not know whether Western Australia will ever get to zero debt and then create sort of a future fund. I do not know. That would probably be a good thing, but it would be some time off before we get to that point. The main thing is that we are on the right trajectory. Once we get to that point, I do not think there would be any need for the Western Australian Treasury Corporation—would there be? Would we need WATC at that point? Sorry, these guys probably did not like that answer! We will continue to keep our state on the right track.

Ms L. METTAM: I refer to a question I tried to ask before when we were dealing with Treasury. It relates to debt and net debt. I referred to the government's cautious approach to debt in the forward estimates. Debt is going up and the budget makes mention on page 44 of savings of approximately $80 million per annum due to debt being reduced by the government. With debt increasing over the forward estimates and new borrowings being required, as illustrated by cash deficits, can the Treasurer advise whether new borrowings or existing borrowings will be needed for refinancing over the forward estimates and what the interest costs associated with those borrowings would be?

Mr M. McGOWAN: Over the last four years, debt has gone down. There have been six consecutive years of operating surpluses and, for four years, debt has gone down. Operating surpluses are different from cash surpluses, as the member knows. That means there has been a cash surplus for four years. Our estimate across the forward estimates is that debt will climb relatively modestly to $35 billion, but our expectation is that we will do better than that because we budget cautiously. I have explained that a number of times. In reality, our situation will be significantly better than that. We may continue to pay down debt. There was a lot of spend this year, which was partly investing in climate initiatives, decarbonisation, the maintenance fund for government buildings, the extra $2.7 billion for health, extra money for social housing, extra cost-of-living relief and so forth, and bringing to book a lot of the enterprise bargaining agreements that were required. We still expect that our situation will be strong. Our asset investment program is going to be $10 billion a year. We may not hit that; that is just the reality of the strength of the economy. It may be that our borrowing program does not have to be that significant. I will get Mr Moulton or Mr Morhall to comment specifically on the answer to the member's question.

Mr R. Moulton: Based on the budget forecasts, we anticipate that we will refinance all maturing debt that is coming due. We have forecast what we call a new money program, which is new debt over the period. I think our forecast is around $500 million a year, which is relatively small in the scheme of things.

With regard to the costs, we talked earlier about the forecasts. That is a whole-of-portfolio forecast, so it takes into account existing debt as well as new debt that is coming on with those forecasts we discussed earlier and the interest costs on debt.

Mr R.S. LOVE: I think we will move on.

The CHAIR: Member for Balcatta, just a quick question, please.

Mr D.R. MICHAEL: On page 148 of budget paper No 2 under "Statement of Financial Position", it refers to lending assets and loans to authorities, including government, local government and universities. Is there any information to break down where the WATC lends money to? Have there been any trends in the borrowings over the last few years? Is there a breakdown of the borrowings for those sectors and have any trends been noticed in the last few years?

Mr M. McGOWAN: I will get Mr Morhall to comment.

Mr S. Morhall: At a high level, page 322 of budget paper No 3 has a breakdown of borrowings from the Western Australian Treasury Corporation by sector. That will give the member the main sectors. Universities and local governments are captured under that "Other" component. From a local government perspective, we have roughly between $580 million and $600 million for specific projects that they undertake. We saw a small drop-off through the COVID pandemic, but borrowing is starting to pick up again. Generally, in my time, I do not think the local government sector has been over $700 million. From a percentage perspective of our overall book, it is relatively small. The university sector is smaller than local governments. It is down around the $225 million to $250 million-mark. When COVID hit, there was concern about universities' borrowing. The government set up a short-term lending facility through WATC to enable local governments and universities to manage any liquidity crises or issues at that time. There were no drawdowns on those funds. That is roughly where those sectors are in relation to WATC's overall book.

Mr M. McGOWAN: WATC manages borrowings for both those sectors. They have not had significant increases over COVID.

Mr S. Morhall: No, not at all.

Mr M. McGOWAN: What happened over COVID was that governments at all levels were meant to borrow, which the commonwealth and state did, to spend to keep the economy afloat, meet health expectations and so forth. During the national cabinet process, local government was asked to do the same thing, but, obviously, local government did not quite deliver in the same way as the state and commonwealth governments did, so it did not have such an impact on the public finances. If we collate it all, we spent around another $12 billion on COVID-related initiatives. Because we kept everything relatively normal—we kept COVID out—we were able to generate large amounts of revenue from the mining industry in particular, which offset a lot of that. That meant we were able to continue to drive down debt. In other states, Victoria is estimating that around one-third of its current debt levels are related to COVID. I suspect it will probably be similar in New South Wales, but maybe not as high, because Victoria had a worse experience. They were the factors involved.

I do not know why university borrowings are so low. Is there an answer to that?

Mr S. Morhall: It would depend on universities' capital requirements going forward or, alternatively, they may seek borrowings outside WATC from the private sector. It would be driven by their capital programs and other sources of funding.

The CHAIR: That completes the examination of the Western Australian Treasury Corporation.

[12.50 pm]