Western Australian Treasury Corporation —

Mr S.J. Price, Chair.

Ms R. Saffioti, Treasurer.

Ms K. Gulich, Chief Executive Officer.

Mr C. McGuinness, Chief Economist.

Mr D. Lines, Acting Special Adviser.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard and the daily proof will be available online as soon as possible within two business days. Questions must relate to 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.

The 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, 31 May 2024. If a minister suggests that a matter be put on notice, members should use the online questions on notice system to submit their questions.

I give the call to the Leader of the Opposition.

Mr R.S. LOVE: I refer to environmental, social and governance considerations on page 147 of budget paper No 2, volume 1. Paragraph 10 refers to the green bond, which was first issued in June 2023. Noting that it has been oversubscribed, can the Treasurer advise whether there will be additional bonds issued?

Ms R. SAFFIOTI: I refer that question to Ms Gulich.

Ms K. Gulich: Thank you, Deputy Premier. The member is correct. Our 2023 green bond was oversubscribed. We printed $1.9 billion and we had a book of just over $6 billion at first cut. The intent of the label issuing is to improve our engagement with our investor community around ESG activities undertaken within Western Australia. It is part of a program. It is intended to be supported by other bond issuance, both as new lines and increases to that $1.9 billion. We have tapped that bond already; it is at $1.925 billion already. Having said that, we will factor it into our funding program over the next couple of years when we take into account market interest, investor feedback, changes in the regulations that support the green bond program and the regulatory and reporting requirements that come with it. We intend to continue with label issuance, but it will be part of the broader market considerations.

Mr R.S. LOVE: Is the green bond green because it is debt to fund decarbonisation or other priorities that would support the loose definition of it being green? Is that correct?

Ms R. SAFFIOTI: Yes. For example, it funds projects like wind farms, standalone power systems, the solar schools program, large-scale batteries, advanced metering infrastructure, LED streetlights, electric vehicle initiatives and other active infrastructure and things like renewable energy desalination plants. The green bond supports infrastructure that supports reducing emissions.

Mr R.S. LOVE: What is the total amount raised by the green bond so far?

Ms R. SAFFIOTI: It has raised $1.925 billion so far.

Mr R.S. LOVE: Is the speed or the issuance of the bonds dictated by the development of programs and the need to fund the particular matters we have spoken about? What is the expectation for the coming year for raising further funds through the green bond initiative?

Ms R. SAFFIOTI: I think the green bond showed the enormous interest in the market for products that support renewable energy or low-emission initiatives. We will continue to look at whether we do more in the future. WATC always looks at raising lending capacity, but this was a specific initiative to raise funds and test the market.

[9.10 pm]

Mr R.S. LOVE: Is there a significant difference or any difference in the rate of the bond? Is it the same?

Ms R. SAFFIOTI: It is the same.

Mr R.S. LOVE: So there is no premium in terms of a reduced yield that we have to provide?

Ms K. Gulich: When we price a bond, it is based on the two bonds that are closest to it and we have what is called extrapolation between two bond lines to see what their value is. When we issued the 33, it was based on our 31 and our 34, so we had bonds issued in the market at those points. It was quite a wide range to look to. That meant that there was a bit of speculation about where the 33 would price. We believed it priced a little bit inside our curve, so a little below where par would be, which meant there was a small saving to it. That was on the back of very large demand; when you have a $6 billion book, you can scale around how much investors are willing to pay for that bond. What we find over time, though, is that our bonds will trade up to the price curve of the Western Australian Treasury Corporation. It is unusual to get a discounted issuance. I would not expect that to always be the case because it really has an impact on market conditions, but it was quite a unique bond offering. We did a very large roadshow in support of it and our asset pool that the minister spoke about was quite unique, and stood out relative to how our peers had structured their asset pools in support of their bonds. We had a lot of positive points to that issuance.

Ms L. METTAM: I refer to page 146 of budget paper No 2, volume 1, under the heading "Significant Issues Impacting the Government Trading Enterprise", paragraph 4. As a result of the interest rate increase, yields have remained well above average for the past 10 years. What does Treasury Corporation forecast will happen with regard to yields?

Ms K. Gulich: Interest rate markets continue to be very volatile. There was a wide range of economic data internationally and nationally, and our markets respond very much to the international environment. Speculation on what central banks are doing globally is moving around. At the start of this year there was a strong expectation that the US feds and the RBA would be cutting into the first half of the year; that expectation has now pushed out to possible cuts by the back end of this calendar year and the possibility of rises later in the year. I can refer the member to budget paper No 3, page 3, table 1. Our interest rate assumptions for our interest portfolio and our investment portfolio can be found in that table. It shows what the weighted average cost of interest is to the state, and that takes into account the current portfolio structure and our assumptions on interest rate movements going forward.

Dr D.J. HONEY: Just in relation to interest rates, I have a further question to the member for Vasse. If we look at the heading "Expenses" on page 148 of budget paper No 2, volume 1, it tells us that the 2023–24 estimated actual is $108 million above the 2023–24 budget. The reason given for that is the interest rate variation, but if we are looking at total borrowings of about $50 billion, then $108 million is only about 0.2 per cent, so it is virtually nothing in the scheme of things. Have we obtained a lot of borrowings at quite low interest rates because of the COVID tail? When those loans mature, are we going to see some significant spike back to these post-COVID interest rate levels?

Ms K. Gulich: Our debt portfolio goes out to 2041, so we have bond lines out about 20 years now, which means we can actually issue those lines at various parts of interest rate cycles. One of the benefits of having a portfolio approach to debt management is that we are not funding everything short; we have a real range between short, fixed and long-term debt. That means that we smooth out the immediate increases and changes in interest rates. We had some debt issues in the very lows of COVID, as one would expect, but we also had some debt issues in our weighted pool in 2012–13 and 2013–14 that is coming through to maturity that were at the much higher six to 6.5 per cent yields. So there is a real balance in the portfolio; it is not one number. This is an average cost against that balanced portfolio.

Dr D.J. HONEY: That is a good outcome; that is a very low increase. I have one further question. I refer to page 149 and the table headed "Income Statement". There is a 14 FTE staffing increase of 15.7 per cent over two years from 2022–23 to 2024–25. Why is that required? It is quite significant.

Ms K. Gulich: Similar to the response from Treasury earlier this evening, in 2022–23 into 2023–24 we had a large number of vacancies. WATC has traditionally been a very stable organisation and the average turnover of staff was somewhere near zero; we actually had zero recruitment for a couple of years there. In the last couple of years we have been turning over 13 or 14 people a year, so the recruitment activities had to step up; the vacancy rate is a lot higher than it has ever been, and we are starting to see that flow through with expectations that we will be recruiting and backfilling those vacant roles into the next year.

Dr D.J. Honey: It could have been you were being too soft on them!

The CHAIR: No more questions? That completes the examination of the Western Australian Treasury Corporation.