Western Australian Treasury Corporation —

Ms L.L. Baker, Chair.

Mr B.S. Wyatt, Treasurer.

Ms K. Gulich, Chief Executive Officer.

Mr S. Luff, Chief Financial Officer

The CHAIR: 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. The Chair will 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 is agreeing to provide and I will 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, 30 October 2020. I caution that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system.

Dr M.D. NAHAN: We were discussing the background to the deferral of the interim dividends in 2019–20 and 2020–21. The Treasurer's explanation for postponing those dividends was a cash flow problem and the need to avoid borrowing in the midst of COVID-19. Could the Treasurer give me some description of the borrowing position back then, because we are dealing with a historic phenomenon, and why Western Power and the Water Corporation in particular would have had to borrow to meet their interim dividends if they had had to pay them towards the tail end of 2019–20?

Mr B.S. WYATT: The member has perfectly summarised the question we were discussing before. I asked him whether he could bowl that up when Treasury Corporation was here. It is here now and I will defer to Ms Gulich, the CEO.

Ms K. Gulich: At the beginning of March, we saw a major disruption across financial markets. It started with the oil price in early March. That spread into the equity markets and very quickly into the bond markets at a global level. At the time, we saw a real flight to liquidity. We saw the selling of all equities and all bonds and a flight into cash, basically, and short-term liquidity. Over this period, we were unable to raise long-term debt. Normally, we would be raising debt throughout the calendar year and we would be raising debt across the whole term of our portfolio, anywhere from short-term debt out to 15 years. Over March and April, that short-term part of the market beyond a couple of months really stopped working. We saw really wide bids to spread offers. We saw our pricing blow out relative to the commonwealth. We saw a huge supply coming into the market as we and all the other semi-government issuers were really trying to shore up and build up liquidity. Because of the uncertainty at that time, it really was not clear how the pandemic would play out through the revenue positions of states and the expenditure positions as the state and commonwealth governments responded to the pandemic.

We had a huge supply issue, because everyone was trying to raise funds, and a market that was no longer functioning. The Reserve Bank of Australia stepped in at scale. It bought about $60 billion of semi-government and sovereign bonds and issued what is called a yield curve control. It really targeted the three-year part of the curve and targeted the rate at 0.25 per cent. That brought back stability and confidence.

Dr M.D. NAHAN: Was that 0.25 per cent?

Ms K. Gulich: It was 0.25 per cent. It brought confidence back into the market and allowed a lot of the balance sheets that were holding a lot of semi paper to release their positions and start to open up the flow. Going into May and June, it was not clear how long those conditions would last as the pandemic worked its way through at a global level as well as in Australia. When we were looking at our position as Treasury Corporation and what our borrowing program looked like, we had deferred from April our borrowing that we were planning to do as part of our normal course of business, and we were relying heavily on short-term markets to build up liquidity in the event that the state needed it. We then had a very large maturity in July, which was a July benchmark bond of just over $5 billion that we also had to manage to re-cashflow and mature out, which we would have preferred to do into long-term debt. We were also managing the state's key metrics. We are committed to keeping our debt within 12 months down below 20 per cent of our total borrowings. In April, we were sitting at between 22 and 23 per cent and that was starting to look like a challenge for year end.

We gave some advice through to the government that our priorities were managing the July maturity, terming that out and getting the funding to manage that maturity; terming out the short-term debt that we had accrued over March and April so that we could issue longer term debt and replace that short-term debt and hold onto the cash within Treasury Corporation; and managing our asset and liability hedge so that we were not exposing the state to any further risk in what was an incredibly volatile market at that time.

Where that plays into the government trading enterprises and the interim dividends is that the interim dividend was payable in advance in the year in which it occurred and would be paid partly in the year it occurred and partly in the following year, once the final profit number was known. The GTEs all have different cash management approaches, but there is a degree of similarity to them. They do not hold excess cash over the course of the year, building up to pay large payments. They hold a minimum cash amount that they will manage from a liquidity perspective and a cash flow perspective. They then seek to match timings of outflows either with inflows from their revenue sources or through borrowings through us when cash is required. This is a prudent cash management approach because they reduce their cost of carry by doing that. Going into April, the GTEs were not holding the cash required to meet the interim dividend requirements for the end of the year. At that stage, they also had no clarity about how the pandemic would play through in terms of their own cash flows and revenues, much the same as the state. Our advice was that if we could avoid going to the market for any further borrowings on top of what we were already managing on the behalf of the state, that would assist us in reducing some of that risk.

Dr D.J. HONEY: The GTEs had combined cash assets of over $3 billion at the end of the financial year. In the forward estimates, it is sitting at around $2 billion. They were cashed up to their eyeballs. They also raised over $1 billion in loans. I think it was the Water Corporation that raised $1 billion in loans, or some other agency, or a combination of agencies. It did not appear that they had any difficulty getting money. They had a large amount of cash at hand. The last financial report before the budget indicated that the dividend would be paid. The decision to defer the dividend payment was made only in the six weeks between the last financial statement and the end of the financial year, so I am struggling to understand that explanation. It seems that the agencies had vast amounts of cash—$1 billion more cash than usual.

Mr B.S. WYATT: If we look back now, we will see that the way we have handled the virus in Western Australia has been very good. The point that I made earlier on and that Ms Gulich has made was that in March, when we were making this decision, the volatility in the bond market was clear. I made the point earlier that in the space of a week, the spread for commonwealth bonds blew out by 30 points. There was a lot of volatility in the bond market. There was also great uncertainty about what the pandemic was going to do to our revenue sources. I think I have made the point in here about Treasury's expectations of what taxation revenue would be. There was huge uncertainty. What has happened, of course, has been nowhere near as bad as Treasury was initially advising me may happen, which is good. I am not sure whether Ms Gulich can comment on the broader utilities, but the point is that the decision made then was based on what we knew then and the uncertainties that we were facing. I do not know whether Ms Gulich wants to add to that. I think it has proven to be a sensible decision. Over the years there has been a number of times when dividends were pushed from one year to the next; I think in my first budget I did that. Mr Buswell did it a couple of times. It is not an unusual thing to do, but it certainly enabled us to do what we were trying to do at the time, which was to try to even out the borrowings and get an understanding of what it would do to our utilities.

[7.10 pm]

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