

STATEMENT OF CORPORATE INTENT 2023/24

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Introduction

Western Australian Treasury Corporation (WATC) is the State's central financial services provider, working with its public sector clients to achieve sound financial outcomes. WATC's principal activities involve funding and debt management, asset and investment management, financial advisory services, financial risk management and treasury management services and systems.

The focus of this document is to outline WATC's activities and strategies for 2023/24, with consideration given to its vision, values, environmental factors and stakeholder interests. This document was also developed in line with the government goals of financial and economic responsibility, and results-based service delivery.

This Statement of Corporate Intent (SCI) outlines the scope of WATC's activities in fulfilling its functions, objectives, dividend and accounting policies and performance targets for the financial year beginning 1 July 2022. WATC's Board of Directors (the Board) has prepared the statement in accordance with Section 16I (1) of the *Western Australian Treasury Corporation Act 1986*.

Corporate Governance

Legislative Framework

WATC was established on 1 July 1986 under the *Western Australian Treasury Corporation Act 1986* (the Act). WATC is governed by a Board of Directors that is responsible for the performance of WATC's functions under the Act.

Board of Directors

In order to ensure that WATC carries out its functions in the best interests of the State, its clients and other stakeholders, the Board sets the strategic direction of WATC (with the agreement of the Minister) and establishes the policies and principles under which WATC operates.

The corporate governance processes established by the Board ensure that it is able to fulfil its statutory obligations, guide the affairs of WATC and oversee its performance.

The Board relies on, and holds to account, the Chief Executive Officer for the operational management of WATC and the implementation of the strategic direction.

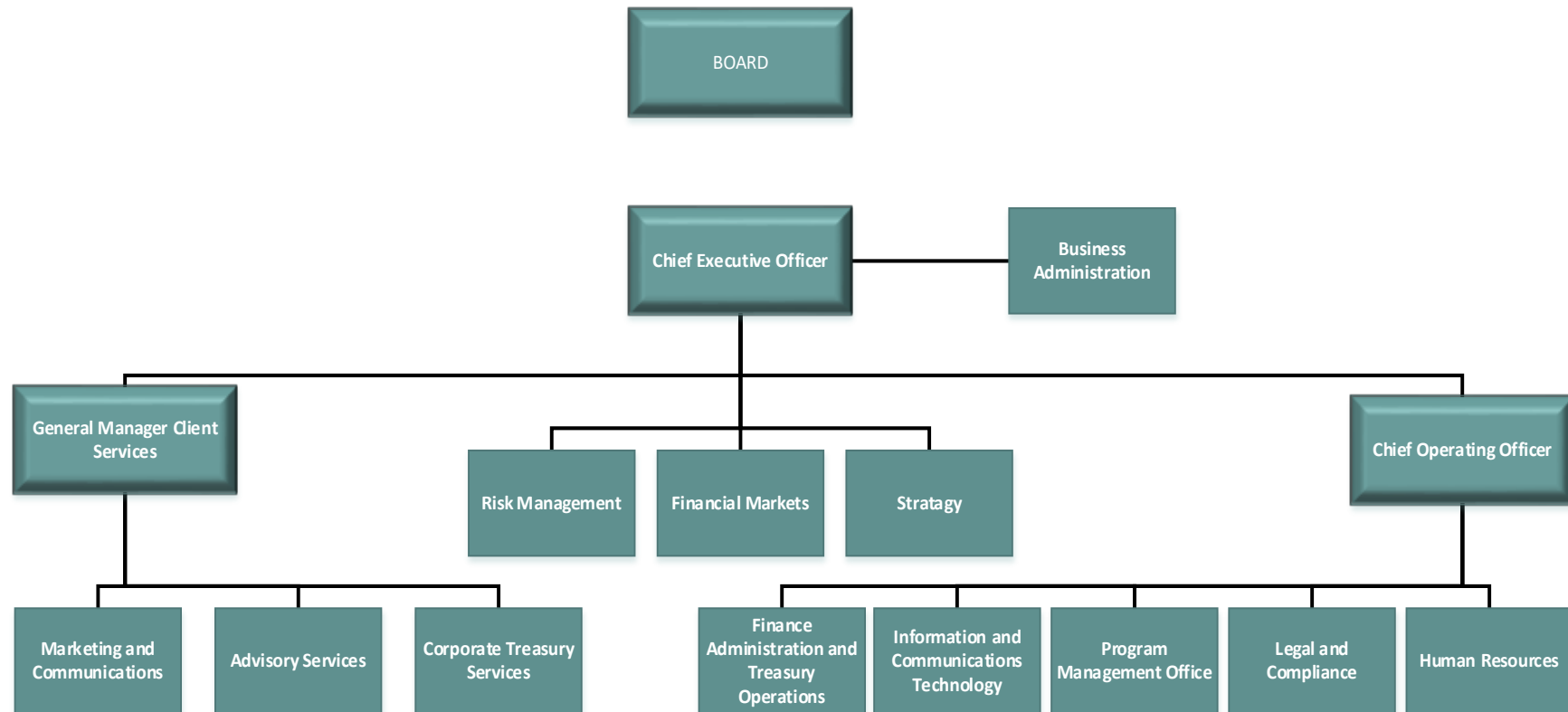
Board Composition

The membership of the Board is determined in accordance with Section 5B of the Act and comprises:

- the Under Treasurer as Chairperson;
- a Treasury officer nominated by the Under Treasurer from time to time as the Deputy Chairperson;
- the Chief Executive Officer or Acting Chief Executive Officer of WATC; and
- up to three other persons with relevant commercial or financial experience appointed by the Minister (appointed directors).

An appointed director may hold office for a term not exceeding three years, as is specified in the instrument of appointment, but may be reappointed from time to time.

Organisational Structure



Vision and Values

Vision

To be recognised as the best at providing financial solutions for the benefit of the Western Australian public sector.

Values

WATC adheres to transacting all business in accordance with its corporate values of:

Integrity

We are open, honest and accountable. We adhere to the highest professional and ethical standards. We honour our promises.

Partnership

We work collaboratively with our clients and colleagues towards achieving successful outcomes.

Adaptability

We challenge ourselves to think creatively and to continuously improve.

Achievement

We are engaged and focused on delivering valued outcomes for WA.

Leadership

We use our knowledge & experience to contribute to the long term benefit of WA.

Strategic Focus

In fulfilling its role as the central financial services provider for the State, WATC's strategic focus for 2023/24 centres on the following key strategic objectives:

- Provision of high quality, cost-effective products and services to the Western Australian public sector.
- Maintain ready access to domestic and international capital markets to ensure funds are raised to finance client borrowing needs.
- Optimise the performance of WATC in accordance with the WATC Act and the risk appetite of WATC's Board.

Nature and Scope of WATC's Functions under the Act

Western Australian Public Sector Product and Service Offerings

Lending Products and Services

WATC lends to clients to meet their financing requirements, which include funding for new works, refinancing existing debt and financing for liquidity purposes. A range of flexible lending products, covering a wide maturity spectrum and offering various repayment options, is available to meet client needs. WATC systematically reviews its lending product and service offerings to ensure alignment with client requirements.

WATC's new lending to clients in 2023/24 is expected to total \$479 million. Estimated lending programs are subject to change depending on government initiatives adopted after the formulation of this plan.

Financial Advisory Services

WATC provides the Western Australian public sector with a range of corporate and financial risk management advisory services to facilitate improved financial decision-making. WATC's goal is to work collaboratively with clients to enhance the corporate and financial risk management analyses undertaken on public sector projects. WATC endeavours to integrate its expertise and experience with the unique business knowledge of its clients to deliver superior outcomes for clients.

Foreign Exchange Services

WATC provides a broad range of foreign exchange solutions for its Western Australian public sector clients. This includes assisting public sector agencies with the management of foreign exchange risk in accordance with Treasurer's Instruction 826. WATC assists clients with the identification and quantification of foreign currency exposures. WATC, in partnership with clients, designs and executes currency management strategies to manage clients' foreign exchange exposures.

In addition, WATC provides full ongoing support through the provision of cash flow projections, audit confirmations, position reporting and market valuations of outstanding transactions.

Asset and Investment Management

WATC offers a range of asset and investment management products and services to clients. WATC undertakes research and development of investment product opportunities to assist clients in managing their short to medium-term investment needs.

WATC, via a Service Level Agreement with the Department of Treasury, is responsible for the investment and management of the Public Bank Account and the Future Fund.

Funding and Debt Management

Borrowing Strategy – Domestic

WATC issues fixed interest inscribed stock in a manner that produces cost savings for the State. This is accomplished by selling inscribed stock in a select number of maturities referred to as benchmark bonds. This entails the initial launch, typically of between \$1.0-\$1.5 billion and progressive issuance into select lines of benchmark bonds with the intention of building up sufficient volumes on issue in each to satisfy investors' requirements for liquidity.

WATC has a fixed income market making dealer panel comprised of leading financial institutions through which it places its benchmark bonds and which conducts secondary market making activities in the domestic market. WATC undertakes ongoing performance assessment and periodically reviews the composition of the dealer panel and may add or remove institutions from the dealer panel throughout the duration of this plan.

The issuance of highly liquid state government-guaranteed benchmark bonds combined with the price making provided by the dealer panel in secondary markets maintains the attractive pricing status that Western Australia enjoys, along with the other state central borrowing authorities, over corporate issuers and this ensures the cheapest possible cost for long-term domestic debt.

WATC will also issue Floating Rate Notes (FRNs) as part of its primary funding program. Demand for FRNs from bank balance sheets is expected to continue.

In addition, retail investors seeking the security of a government-guaranteed investment are able to purchase fixed interest inscribed stock from WATC. Retail investors include people who are requested by the Australian Government Department of Immigration and Border Protection to purchase a designated investment in order to complete their residency application under the Business Innovation and Investment Program.

The retail sector is a secondary source of funds for WATC.

WATC will continue to monitor the market to undertake other forms of borrowings, including indexed bond issues, which meet its funding requirements.

Borrowing Strategy – Overseas

WATC's objectives in accessing overseas markets are to:

- fund its borrowing program where it is able to do so at rates equivalent to or better than domestic rates after hedging any foreign currency exposure;
- meet the foreign currency financing requirements of its clients;
- undertake issues with specific structures or terms to meet particular portfolio or client requirements; and
- diversify its investor base.

WATC's strategy in meeting these objectives is to tap overseas markets on an opportunistic basis through bond issues and its US\$2,000 million multi-currency Euro Medium Term Note (EMTN) Program.

WATC's long-term overseas borrowings are used to provide both fixed and floating rate funding for its portfolio. However, as WATC's policy is not to take any foreign currency exposure, all foreign currency obligations are either directly lent to clients or swapped into Australian dollars.

The EMTN program provides the documentation infrastructure for WATC to respond quickly to market opportunities in a wide range of currencies. Maturities can range from one month to 30 years.

In addition, WATC has lodged Shelf Registration Statements with the Japanese regulatory authorities for primary and secondary distribution of its securities in Japan. This means that WATC can be more responsive to offers for bond and EMTN issues that may be sold to investors in Japan.

WATC will continue to monitor other markets for opportunities to undertake borrowings which meet its overseas borrowing objectives.

WATC has positioned itself to readily access the cheapest source of short-term borrowings in overseas markets through its US\$6,000 million multi-currency Euro Commercial Paper Program.

Sustainable Bond Issuance

WATC released its Sustainable Bond Framework (SBF) and the associated Second Party Opinion (SPO) from Sustainalytics in April 2023, with the first labelled issuance targeted for Q4 2022-23. With the focus among Investors, regulators, rating agencies and market commentators on the environmental, social and governance ("ESG") credentials of bond issuers continues to accelerate, it is expected that the external scrutiny on ESG activities of the State will continue to grow and require ongoing proactive management.

Investor Marketing Strategy

In sourcing its clients' loan funds, WATC will borrow from international and domestic capital markets. In support of this, WATC undertakes an annual marketing program, consisting of engagement with domestic and overseas investors with the objective to:

- ensure ready access to funding from domestic and overseas investors to meet its borrowing and liquidity management program;
- ensure that WATC is able to borrow at competitive margins to the other equivalently rated State treasury corporations with similar sized borrowing programs;
- continue to maintain its current investors base by keeping investors up to date with information on WATC's borrowing activities, the Western Australian economy and state government finances, credit standing and increasingly ESG credentials; and
- seek to diversify its investor base by introducing potential new investors to the Western Australian economic story, the State and Federal relationship and informing them of WATC's activities in financial markets.

During the pandemic in 2020 and 2021 these engagements moved to an online platform, with a return to face to face meetings recommencing during 2022/23. These in person discussions will continue in 2023/24 and remain of high importance, providing valuable investor insight. Engagement with Investors will be complemented via digital channels through the launch of a refreshed WATC website in early calendar 2023.

Balance Sheet Structure

A key balance sheet management goal for WATC is to achieve debt maturing within 12 months of less than 20% of its total debt portfolio and to maintain a liquidity coverage ratio of 100% of debt maturing within 12 months as at 30 June each year.

The achievement of this goal remains an important part of the contribution WATC can make to the State's credit worthiness. It requires an ongoing assessment of the costs and benefits of the strategy, in conjunction with the Department of Treasury, who manage the other components of the ratings score.

In sourcing its clients' loan funds, WATC will borrow from domestic and international capital markets. Based on estimated new lending forecasts, WATC's expected borrowing activity is:

	\$ billion			
Estimated Outstanding Debt at 30 June 2023				49.7
Estimated Borrowing Program 2023/24				
	\$ billion (Range)	\$ billion (Estimate)	\$ billion (Estimate)	\$ billion (Estimate)
Estimated New Lending²:			0.5	
Projected Maturities³:				
Domestic Long-Term	3.0 to 4.0	3.6		
Domestic Short-Term	2.5 to 3.5	3.0		
Floating Rate Note	1.0 to 2.0	1.7		
Overseas Commercial Paper	0.0 to 1.0	0.5		
Financial Assets	0.0 to 1.5	-	8.8	
Total Borrowing Program			<u>9.3</u>	
Proposed Borrowing⁴:				
Domestic Long-Term	4.0 to 5.0	4.5		
Domestic Short-Term	2.5 to 3.5	3.0		
Floating Rate Notes	1.0 to 2.0	1.3		
Overseas Commercial Paper	0.0 to 0.5	0.5		
Overseas Bonds/Medium Term Notes	0.0 to 1.0	-		
			<u>9.3</u>	
Projected Borrowings Outstanding (June 2024)				50.2

Notes:

1. Face Value of Projected Outstanding Debt at 30th June 2023, excludes collateral held.
2. Lending Program estimates incorporate data from the 2023/24 W.A. State Budget delivered May 2023
3. Domestic Long-Term, Domestic Short-Term and Overseas Commercial Paper maturities reflect projected maturities in the year to 30 June. Totals may not add due to rounding.
4. The sourcing of WATC's funding is subject to conditions in the various markets and the market mix may be amended as necessary each year to meet WATC's pricing, liquidity and lending targets.

Financial Risk Management

WATC defines risk as:

"The uncertainty of an event occurring that could have an impact on the achievement of its objectives."

These are the key elements within WATC's risk management framework:

- Market Risk
- Credit Risk
- Liquidity and Funding Risk
- Operational Risk
- Reputational Risk
- Strategic Risk.

WATC's risk management policy objectives are to:

- ensure risk management is adopted throughout WATC as a prudent management practice;
- ensure that all employees are made aware of the need to manage risk and to promote a culture of participation in that process;
- protect WATC from adverse incidents, to reduce its exposure to loss and to mitigate and control loss should it occur;
- ensure the ongoing, unimpeded capacity of WATC to fulfil its vision, perform its key functions, meet its objectives and serve its customers;
- reduce the costs of risk to both WATC and the Western Australian State Government; and
- adhere to relevant and appropriate risk management standards and comply with WATC-specific legislation and other relevant state government requirements.

The Board has overall responsibility for WATC's risk management framework and policies, including reputational and strategic risk. The Board has delegated day-to-day responsibility to the CEO and established an Asset and Liability Committee that develops policies for market, credit, liquidity and funding, and an Operational Risk and Compliance Committee that develops policies for operational and compliance based risk.

WATC also maintains a Risk Management Branch which has an independent monitoring and risk management oversight/quality assurance brief with respect to all aspects of risk.

Key Performance Indicators

In order to monitor its performance in achieving its objectives, WATC has identified its key performance indicators and targets. These targets are challenging and, when attained, ensure real benefits to WATC, its clients and stakeholders. WATC's key performance indicators and targets for 2023/24 are:

Estimated Interest Rate Savings

The aim of this measure is to estimate the benefits derived from centralising the State's debt portfolio management and borrowing program within WATC.

In order to measure the success of WATC in maintaining breadth and depth in its debt paper and estimate the flow on benefit to its lending clients, WATC benchmarks its funding costs against selected Australian corporate bond market issuers. Specifically, WATC estimates the savings to clients borrowing from WATC compared to the estimated cost to clients of borrowing in the corporate bond market issuers with a minimum credit rating of AA+.

Guarantee fees charged by the State are excluded from the cost of borrowing from WATC as it is assumed that they will also be charged on borrowings undertaken by clients in their own name.

Target: 2023/24 Savings > 0.00%

Client Satisfaction

A range of mechanisms including independent surveys and direct client feedback following specific engagements is used for this purpose. Client satisfaction performance outcomes are reported annually.

Target: 2023/24 90% Client Satisfaction

WATC continues to target an aspirational client satisfaction level of 100%.

Administration Cost Ratio

WATC monitors its administrative efficiency and the cost effectiveness in funding client borrowing requirements by measuring its Administration Cost Ratio. Clients are able to benefit from the economies of scale that result from the centralised borrowing arrangements of WATC. This concept enables WATC to reduce the administration cost per dollar of lending to clients.

The economies of scale achieved by WATC generate savings to the client that would not be available to individual clients attempting to fund their borrowing requirements directly from the financial market. In general, the level of specialisation and expertise provided by WATC would not be cost effective for an individual client to maintain.

The Administration Cost Ratio is a measure of the average administrative on-cost that must be borne by WATC's clients. It is defined as the ratio of net administration expense to average loan funds outstanding, expressed as a percentage.

$$\text{Administration Cost Ratio (\%)} = \frac{\text{Net Administration Expense}}{\text{Average Lending Assets}} \times \frac{100}{1}$$

Net Administration Expense is defined as total administration expenses less non-interest revenue. Average Lending Assets is defined as the average of the opening and closing book value of loans to clients for the period.

Target: 2023/24 Administration Cost Ratio < 0.06%

Pre-tax Profit

Target: 2023/24 WATC's estimated Pre-tax Profit for 2021/22 is \$27.6 million

Unlike private sector financial institutions, it is not the primary objective of WATC to maximise pre-tax profit, but rather to maintain an adequate profit while providing cost-effective financial products and services to the State and Western Australian public sector agencies. The estimated pre-tax profit has been determined after incorporating the Government Trading Enterprise Efficiency Dividends announced in previous State Budgets by reducing items of discretionary operating expenditure.

Staff Engagement Rating

The success of any organisation depends on staff members who enjoy their jobs and feel rewarded for their efforts. WATC strives to create an environment where employees are motivated to do their jobs to the best of their abilities.

Target: 2023/24 Staff Engagement Rating > 65%

Statement of Accounting Policies

WATC prepares its financial statements in accordance with Australian Accounting Standards, and other authoritative pronouncements as applied by the Financial Management Act, Treasurer's Instructions and Western Australian Treasury Corporation Act (1986).

Full details of WATC's accounting policies are provided in the Annual Report.

Dividend Policy

WATC's dividend policy has been formulated to ensure that WATC pays an appropriate dividend to the State that is consistent with sound commercial practice and has regard to the financial health of WATC. WATC's policy provides for dividends to be paid to the Consolidated Account at a level of 75 per cent of WATC's previous year's after tax equivalent profit, subject to any adjustments which are agreed with the Treasurer.

Information to be provided to the Treasurer

Management Reporting

Management provides the Board with comprehensive reports on its operational and risk management performance at each of its regular board meetings.

Ministerial Reporting

In line with the accountability provisions of the Act, the Board provides the Treasurer with a report for each of the first three quarters of each financial year. The reports are provided to the Treasurer within one month following the end of the quarter. The Act requires the Treasurer to table each quarterly report before both Houses of Parliament within 14 days of receiving it.

Quarterly reports include an overview of WATC's activities, its achievements against certain key performance indicators and its financial performance.

In addition, the Act requires that the Board provides the Treasurer with a three-year Strategic Development Plan and Statement of Corporate Intent annually.

Annual Report

A comprehensive review of WATC's operations and its performance, together with its audited financial statements, will be reported each year in WATC's annual report, as required under the *Financial Management Act 2006*.

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