

RESPONSE TO QUESTIONS TAKEN ON NOTICE OR PROVISION OF FURTHER INFORMATION – PAEC Inquiry into the 2020-21 Budget Estimates – Treasurer Hearing

Questions on notice

1. How much has been expended on the scoping study to date?

(Asked by Mr Hibbins on pages 13 to 14 of the transcript)

Transcript extract:

Mr HIBBINS: The registration function is actually a function of VicRoads that you are planning to privatise, isn't that correct?

Mr PALLAS: Well, you say that, Mr Hibbins, but the government has made no decision on that matter. Once again you keep being fast and loose with language. 'Privatise'? There is no way that this government will divest its ownership in this or any other asset, unlike the conservatives who divested in perpetuity many of their electricity holdings. But certainly the government is going through a review about the best and most efficient way to deliver our registration and licensing services. Look, I aspire to run an efficient government, and that means every area of government will be reviewed from time to time to make sure that they deliver a premium service to the taxpayer.

Mr HIBBINS: Are you currently undertaking a scoping study?

Mr PALLAS: Yes, the scoping study into registration and licensing is ongoing.

Mr HIBBINS: I say 'privatisation'. What would you say?

Mr PALLAS: I would say it will almost invariably be either an improvement of a publicly run asset or a joint venture with the private sector, or we could decide to put those functions under the control and the mandate of Service Victoria and run them as a consolidated asset. We just have not finalised our thinking in this area yet, and when we do, we will let the public know.

Mr HIBBINS: Would it be similar to the arrangements with the land titles office?

Mr PALLAS: Well, it would invariably be a joint venture, so the state would maintain a shareholding and an ownership share, as it were, over the life of any concession. But we are not divesting the asset. We are not divesting in total our asset even during the life of a concession, so it would be substantially different from that example.

Mr HIBBINS: How much has been expended on the scoping study to date?

Mr PALLAS: I would have to take that on notice.

Response

The Department of Treasury and Finance has expended \$1.99 million on the scoping study to date.

2. You said you have done the work, can the committee have access to the modelling that you have done?

(Asked by Mr O'Brien on page 16 of the transcript)

Transcript extract:

Mr D O'BRIEN: Thank you, Chair. Good morning, Treasurer. I have some questions for Mr Whitford of Treasury Corporation, but I will go to others first. Is he here today?

Mr PALLAS: Yes.

Mr D O'BRIEN: He can come to the table and I will ask the other questions first. Secretary, can I ask questions to you. What modelling has Treasury undertaken about the impact of any change in Victoria's AAA credit rating?

Mr MARTINE: Thanks for the question, and it is an important point to discuss. We have done obviously calculations on interest expense and the AAA. I will run through the maths behind it, but the first point to make is changes to the credit rating, if they do occur, do not affect the existing stock of debt because the existing stock is all fixed. So it relates to new issuance. So the new issuance for the rest of this financial year is roughly about \$19 billion, and TCV bonds are currently priced—three-year bonds are priced at about 20 basis points, which is 0.2 per cent, and they go up, because yield curve—are positive sloping. So five-year bonds at about 0.4—seven years is about 0.7. So the rates are incredibly low at the moment and the spreads are even lower. So if there was a change to the AAA credit rating and the market responded by seeking a higher return—because at the end of the day—

Mr D O'BRIEN: Pricing it in.

Mr MARTINE: it is up to the market. At those low rates you are probably only looking at about 2 maybe to 5 basis points, which is effectively 0.02 to 0.05. So a 1 basis point change on \$19 billion issuance of debt is about \$1.9 million—

Mr D O'BRIEN: \$1.9 billion.

Mr MARTINE: \$1.9 million.

Mr D O'BRIEN: Million?

Mr MARTINE: Million. So 0.01 per cent times \$19 billion is \$1.9 million. So a 2 basis point change, is \$3.8 million. If it got up to, say, a 5 basis points change, it would be up at around \$9.5 million.

Mr D O'BRIEN: That is per annum?

Mr MARTINE: So you are probably looking at about \$3 million to \$9 million per annum change as a result of the issuance for this year.

Mr D O'BRIEN: You said you have done the work, can the committee have access to the modelling that you have done?

Mr MARTINE: I am happy to take that on notice. Essentially the maths behind the modelling is exactly what I have outlined here, but I am more than happy to sort of put that—

Response

The modelling of the impact of a change in interest rates (basis points) on the forecast Budget Sector Debt Portfolio (BSDP) financing task from December 2020 to 30 June 2024 is highlighted below.

2020-21

\$

estimate

Total Budget Financing Task	20,555,425,924
Change in Interest cost due to a 1 basis point movement	1,027,771
Change in Interest cost due to a 2 basis point movement	2,055,543
Change in Interest cost due to a 5 basis point movement	5,138,856

3. An average cost of funds and an average length of maturity.

(Asked by Mr O'Brien on page 19 of the transcript)

Transcript extract

Mr D O'BRIEN: Okay. What is the average term and interest rate for bonds issued by Victoria?

Mr WHITFORD: Well, it very much depends on the term. The approach to the market for us is to issue into the periods of demand, so this is very much an investor-led process. So TCV has an amount that we need to raise. We made the market aware that we have an amount we need to raise, but then we work out through the process where the best issuance opportunities are going to be—so what is the depth of the market—

Mr D O'BRIEN: Yes, but do you have an average? Presumably you have three-, five- and 10-year bonds and they are all slightly different interest rates.

Mr WHITFORD: We have a bond maturity every year. So every year we have a bond maturity. Each of those maturing lines has a different interest rate, depending on when we brought that line to the market, and what we try to do is issue into those existing lines. So we do not have a whole series of bespoke instruments; we will have a 20 November 2024 bond and we will issue into that so that we actually have a depth of market across those.

Mr D O'BRIEN: Yes, but overall is there an average?

Mr WHITFORD: An average cost of funds?

Mr D O'BRIEN: An average cost of funds and an average length of maturity.

Mr WHITFORD: I must admit it is something I would have to take on notice because frankly it is not something that is of relevance to the bond instruments process. We issue where market yields are at a particular point in time and on a particular day and then on-lend that to the customer.

Response

TCV does not calculate an average term or cost of debt, as we manage the risk between our market raised liabilities and our loans to our customers, and we mark to market these portfolios on a daily basis. We do not use book yield in any of our databases or calculations.

4. So which projects were under pressure, Secretary?

(Asked by Ms Vallence on page 33 of the transcript)

Transcript extract

Ms VALLENCE: Secretary Martine, can you advise if DTF has received any advice from any departments on any government projects about their likelihood to exceed their budgeted costs?

Mr MARTINE: We are currently going through the process of, as the Treasurer indicated in an answer to an earlier question, assessing, particularly the 2020–21 requirement on all of the projects. So what is reflected—

Ms VALLENCE: Have any departments actually come to you? Have any departments provided feedback that they expect their projects to go over cost—to blow out?

Mr MARTINE: It is a bit early to be able to answer that question, because we are in the middle of that process to—

Ms VALLENCE: Well, how is it too early to answer?

The CHAIR: Ms Vallence, could you allow Secretary Martine to answer your question.

Ms VALLENCE: How is it too early to answer? They have either come to you or they have not. Have any departments come to convey that their projects are likely to exceed so that you can start provisioning or can start estimating for the future expenditure review committee?

Mr MARTINE: If a project has a view that the total budget is inadequate, then the normal process is the relevant minister would raise that and seek additional funding through the appropriate process, which might be through cabinet or the relevant cabinet subcommittee. So as outlined in—

Ms VALLENCE: And have any?

Mr MARTINE: As outlined in a couple of spots in the budget papers, including the Auditor-General's statement in budget paper 4, the budget reflects all government decisions that have been made up until the close of the budget books, which was 12 November. So any projects that were under pressure, where a minister brought forward a funding request and the government made that decision, are included in budget numbers.

Ms VALLENCE: So which projects were under pressure, Secretary?

Mr MARTINE: Well, I would have to—

Ms VALLENCE: Could you provide that to the committee?

Mr MARTINE: I would have to take that on notice because I cannot recall any particular projects that have received additional funding that is not disclosed in the budget papers.

Response

The 2020-21 Budget Paper No.4 Statement of Finances reflects all funding decisions made by Government for new and existing capital investments up to 12 November 2020.

Budget Paper No.2 *Strategy and Outlook*, Chapter 5, table 5 and table 7 report aggregate capital funding for departments for new and existing capital investments. Any change in funding for an existing project that has been agreed by the relevant Cabinet Committee based on a submission by a Minister will be incorporated in the aggregate amounts in these tables.

Budget Paper No.2 *Strategy and Outlook*, Chapter 5 includes commentary on some key existing capital projects including current cost.

Budget Paper No.3 *Service Delivery*, Chapter 1 includes initiatives allocated funding between 2019-20 *Budget Update* and 12 November 2020.

Departments and agencies are currently working through the impacts of the coronavirus (COVID-19) pandemic on the completion dates and costs for the State's existing capital projects. Any required updates on phasings and delivery timeframes of existing projects will provided in the 2021-22 Budget.

Provision of further information

5. And the registry—is it available publicly? Could it be provided to our committee?

(Asked by Mr O'Brien on page 19 of the transcript)

Transcript extract

Mr WHITFORD: The overseas investors are probably between 10 and 15 per cent of the overall holding. The biggest single group of holdings of investors are the Australian banks. So the big four banks will hold about 40 per cent. The smaller Australian deposit-taking institutions will hold about 9 per cent, on our evaluations at the moment, and this is because Victorian government bonds, as with other state government bonds, are admissible for tier 1 capital purposes, so there is a liquid asset holding that just sits underneath that.

Mr D O'BRIEN: And the registry—is it available publicly? Could it be provided to our committee?

Mr WHITFORD: Yes, it is available. You can see on the registry website.

Mr D O'BRIEN: On the registry website?

Mr WHITFORD: I can provide you the details of that.

Response

Treasury Corporation of Victoria's (TCV) inscribed stock registries are operated by Computershare Investor Services Pty Ltd, who act as our Australian dollar issue and paying agent (making interest and principal cash flow payments on our behalf) and maintain a register of all current holders of TCV bonds in real time. This register changes constantly as trading of these securities occurs in secondary markets. The registry is in fact not publicly available information.