

2021-22 South Australia Post Budget Investor Update Transcript

Speaker 1 ([00:06](#)):

By working together, we're delivering a stronger South Australia.

Anna Hughes ([01:05](#)):

We would like to acknowledge the Kaurna people as the traditional owners of the land on which we meet today. We recognise their unique cultural heritage, customs, spiritual beliefs, and relationship with the land are of ongoing importance today. And we pay our respects to elders past, present, and emerging leaders of the future.

Anna Hughes ([01:26](#)):

I'm Anna Hughes, General Manager of SAFA. I'd like to welcome you to the post budget investor update following the South Australian State Budget, which was delivered on 22 June and SAFA's funding update released to the market on the same day. I'm joined today by the South Australian Treasurer, the Honorable Rob Lucas MLC, who I will ask some questions regarding the current environment, key budget initiatives, and future outlook. I will then ask SAFA's director for Treasury Services, Andrew Kennedy, to answer some questions regarding SAFA's 2021-22 funding intentions. I'll also ask him to discuss relevant market issues, such as AONIA and more importantly SAFA's unique approach to ESG and sustainability.

Anna Hughes ([02:16](#)):

Treasurer, the 2021-22 budget presented some revisions to last year's forecasts and future economic forecasts. Can you take us through how these revisions have impacted the 2021 final result and this year's budget, including the forecast return to surplus?

Rob Lucas MLC ([02:35](#)):

Well, I think the two big changes that have occurred in the last six months since our last budget have been one, the national economic recovery and the state economic recovery have been much stronger than anyone was predicting late last year. And so that's meant that revenue line such as national GST returns and therefore our state share of that and conveyance duty because of the strength of the residential housing market. We saw significant revenue growth back from the previously predicted significant reductions in the last financial year.

Rob Lucas MLC ([03:07](#)):

So instead of a \$2.5 Billion dollar deficit, we ended up with a deficit just above \$1.5 billion dollars, \$1.8 billion at that particular time. So that was an improved result, but still a very significant deficit for a budget of our particular size. What it has meant, however, is I guess the second factor that we've had to take into account is that our economic stimulus package of \$4 billion we outlined last year, we made it quite clear that it would be two years' time limited.

Rob Lucas MLC ([03:36](#)):

We made sure that we didn't lock in ongoing and sustainable operating expenditure. It was a in and out two years, adrenaline hit to the state's economy, and that would be the end of the spending. So what that has meant is that we've been able to return to surplus a year earlier than we're predicting. So from

next year, we'll have a very small surplus and then we're predicting more substantial surpluses in the last two years, the forward estimates.

Rob Lucas MLC ([04:01](#)):

So South Australia will return to an operating surplus much earlier than any other government with the possible exception of Western Australia, of course. So the Victorian government doesn't predict surpluses for the next four years. The Commonwealth hasn't predicted surpluses. Queensland and New South Wales are only predicting returning to surplus in '24-25. So we've made a conscious effort to limit the stimulus package. Make sure we come back to a situation where we're spending no more than we earn on an annual basis. Albeit will have an elevated level of debt as all governments do as a result of COVID.

Rob Lucas MLC ([04:37](#)):

The other big impact or result has been, of course, that our economic growth assumptions for last year were significantly higher. We were looking at estimating contraction of three-quarters of 1% for this last financial year. In the end, we've grown by two and a quarter percent. So we have seen a significant growth or seen significant growth compared to what we're predicting. And we're going to see significant growth next year, or this current financial year as well.

Anna Hughes ([05:06](#)):

The budget outlines the government's key budget priorities being jobs, health, and education. Can you describe the state's key initiatives?

Rob Lucas MLC ([05:15](#)):

Well, clearly jobs is the main driver for all governments. At the moment, it's been a key driver for us, so we continue to try and drive down the cost of doing business in the state. We took a hit in last year's budget by driving down the cost of water for businesses and households in South Australia. That meant that we actually get about \$200 million a year, less in dividends and tax equivalents from SA Water here in South Australia. But it's made a significant reduction in the cost of water for businesses and for households in South Australia.

Rob Lucas MLC ([05:44](#)):

So that's the key driver, but the other key driver for us of course has been the record \$17.9 billion infrastructure program. And that will continue to sustain some jobs in that particular area as well. But there are also strategic investments in a number of key priority areas such as the new Riverbank arena, which will be in essence, the third extension of our convention center in South Australia. It will mean that we'll be able to compete for the bigger conventions and conferences that currently we are not able to bid for. And that'll be a key driver, both in terms of the visitor economy, growth of jobs and economic growth and stimulus activity for our CBD here in Adelaide as well.

Anna Hughes ([06:27](#)):

The government has had a strong focus on infrastructure, building what matters. Could you outline the state's key infrastructure projects and how these will impact on the state's net debt position?

Rob Lucas MLC ([06:39](#)):

Well, the biggest one for us has been the north south corridor project. It's the biggest economic infrastructure project in the state's history. The final section of it's now estimated to be \$9.9 billion and includes a combination of both tunnels and at grade work in terms of the final link of the north south corridor. When completed in 2030 it'll mean a saving of 24 minutes from north to south along that corridor. Freight savings per trip of up to \$8.80 per trip. So very significant economic benefits from that particular project. We've had to spread the project out over 10 years. We announced it last year, and that helps us both in terms of managing an enormous project in terms of the contractual arrangements, but it also spreads our debt position in terms of the borrowings that we have to undertake on behalf of the state. It's the biggest one.

Rob Lucas MLC ([07:38](#)):

And we couldn't afford to front-end load it or compact too much in terms of both managing a contract or contracts, but also in terms of the impact it would have in our state debt levels. The next two biggest projects we've got, we've just announced the new women's and children's hospital project at \$1.95 billion. Again, we spread that out over now, six years. Originally, we were going to try and conclude that in 2024, it now won't be concluded until completed in 2026. Again, that helps us spread both the management of the contract, but also managing our state's debt position over a period of time. So the third project will be the arena project, which is a much more than the other two. It's just over \$660 million. And we're not going to complete that until 2027-28. So what we've done with our three big projects, I mean, there are lots of other smaller projects, 50 million, 100 million, et cetera, across the borders. Most jurisdictions would have.

Rob Lucas MLC ([08:38](#)):

What we've tried to do with the three big projects is spread them out over a period of up to 10 years, I guess. Cool the heels of those in the community who wanted everything to be done at once. And we said, look, that's not sensible. We'll try and manage the load in terms of what we've been doing. And in that way, we've been able leave an elevated level of debt as all governments have got, but we believe with a budget of \$23 billion with an economy over \$110 billion, it's a sustainable debt level for South Australia to be able to manage in the future.

Anna Hughes ([09:12](#)):

Thanks, Treasurer. The state is building an international reputation with its strong focus on sustainability. Are there any particular projects you'd like to mention that a highlight the state's sustainability credentials?

Rob Lucas MLC ([09:26](#)):

Yeah, well, South Australia has a deserved reputation in this area. Over 60% of our energy in South Australia is now being generated from renewable energy. The final piece of that puzzle will be the huge interconnector project, which will allow us to export bucketloads of renewable energy to the Eastern states to help stabilize prices and system security. So it'll be a benefit not only to South Australia, but to the national energy market as well, but the big projects in relation... Oh, and sorry. Then the other aspect of, I guess the sustainability credit credentials of the government is that we, for a number of years now, have pledged to zero emissions by 2050, but more importantly to hard our emissions by 2030. So not only the long-term target, but we do have a much tougher target by 2032 to hard out emissions.

Rob Lucas MLC ([10:19](#)):

So that's going to require a whole series of initiatives from electric vehicles initiatives, hydrogen strategy that the government has already announced and will be actively engaged in trying to get one of the hydrogen hubs here in South Australia. In terms of the projects, the new Royal Adelaide Hospital was a four-star Green Star hospital, but the new women's and children's hospital while still in the design stage or the final design stages, they're telling me it's going to be 100% electric. So no use of gas resources at all. And to the extent that we continue to have increasing levels of renewable energy generating electricity in South Australia, it'll mean that more and more of our hospital will be generated by renewable energy. So it is a key part of the sustainability design of our new women's and children's hospital. And that's the big project. I mean, there are a series of other projects, obviously at a smaller level schools and hospital upgrades, which equally are looking at sustainability in terms of the infrastructure build.

Anna Hughes ([11:27](#)):

Thank you, Treasurer, for your insights today, and we wish you all the best for your upcoming retirement. And thank you for your successful career as a caretaker and guardian of the state. I have with me, Andrew Kennedy, Director of Treasury Services.

Hi, Andrew, would you be able to provide some detail of SAFA's market activities over the past year?

Andrew Kennedy ([11:48](#)):

Hi, Anna. And I'd just like to say thanks to the Treasurer for making himself available and for giving us a great insight into the 21-22 budget. In terms of SAFA's fundraising activities in the last 12 months, the 2021 financial year proved to be a little bit challenging, primarily due to the delivery of the budget not coming out until November of 2020. When we received the funding program in November, it determined that we needed to raise about \$6.25 billion in term funding for the year. We completed the program only raising \$5.95 billion in term funding. However, we did run our short-term funding above what our elevated target of two and a half billion is, closing the year with a balance of a roughly 2.9 billion in short-term funding. During the year, we continued to tap into our existing even benchmark lines, targeting \$3 billion maximum outstanding in any issue. We also issued a new 2034 fixed rate benchmark line in February of this year, which we're extremely pleased with the outcome with over 40% of the bonds being distributed to international investors.

Andrew Kennedy ([12:53](#)):

During the year, we also tapped a new three year AONIA transaction, which was the first term AONIA transaction issued in Australia.

Anna Hughes ([13:02](#)):

What is SAFA's funding program for this financial year? And how do you anticipate raising the required funding?

Andrew Kennedy ([13:09](#)):

For the 21-22 financial year, SAFA anticipates that we'll need to raise \$5.2 billion in term funding. This is comprised of \$4.2 billion in new client money, and pre-funding conducted during the last year of \$800 million due to, as the treasurer said before, that the state finished the year in a better position than anticipated.

Andrew Kennedy ([13:28](#)):

We also have \$1.8 billion of funding to raise for refinancing of future maturities. As we've discussed at other times, SAFA refinances its future maturities 12 months in advance. We'll also look to reduce our current short-term outstandings from the \$2.9 billion it currently stands at back to the \$2.5 billion target. We're looking to raise our term funding through a variety of different mechanisms, primarily longer dated fixed rate bonds. We announced in July that we have a mandate out for a new 2036 line. We'll also be looking to tap into our other even calendar years. We're targeting three and a half billion outstanding in those lines up from the previous \$3 billion target. We're also interested in investigating opportunities to issue debt out around the 20 year or longer point of the curve, consistent with the 2040 bonds that we put on the curve in the last financial year. We're also looking to extend the duration of our floating rate curve by issuing a new 2025 AONIA linked bond. This will be the longest AONIA linked bond in the Australian market.

Anna Hughes ([14:32](#)):

The RBA through its initiatives has influenced the funding and liquidity markets. How have these programs impacted SAFA?

Andrew Kennedy ([14:41](#)):

So the actions of the RBA have been very interesting to observe over the last couple of years, primarily in response to the COVID-19 pandemic. There's a number of different unconventional monetary policy actions. That being the term financing facility, which ran off as of 30 June this year. The other being the yield curve control measure, which when they updated the markets after their board meeting on the 6th of July, announced that they weren't extending the maturity from the existing April 24 out to the November 24. But instead, maintaining their target rate of 10 basis points for the April 24 maturity. The other was the extension announcement of their quantitative easing program. The second phase of quantitative easing is due to expire shortly, and they've announced that they will be extending the program, but tapering that particular program from \$5 billion a week to \$4 billion a week whilst maintaining the split of 80/20, between the ratio of government to semi-government bonds.

Andrew Kennedy ([15:40](#)):

The impact for SAFA has been that we've had to be very careful about how we've conducted ourselves in term financing markets, because there has been a little bit of a disruption to liquidity in term markets, but more so the impact has been at the short end of the curve. As I discussed earlier, we refinance for our term maturities 12 months prior, and we do that through finding matched assets. Given the actions that we've seen from the Central Bank, we've had difficulties in being able to locate suitable assets for our refinancing purposes. And so we've changed the way we've had to manage our liquidity at the short end of the curve. That is we moved away at this point in time from match funding our assets to holding HQLA1 as an alternative.

Anna Hughes ([16:22](#)):

Of particular interest to the investor community is ESG. At SAFA, we have taken a different approach to ESG. Can you outline how SAFA is progressing with this initiative?

Andrew Kennedy ([16:33](#)):

So ESG is obviously very topical at the moment, and investors are asking for issuers to be able to provide credentials for them to assess whether they're going to be an investor or not. We heard the Treasurer

just before discussing about the sustainability and the programs the state has in place to continue with its focus on sustainability for the state. SAFA's approach to ESG has been a little different from other states and other issuers. That being that we haven't gone down the path of doing a single green bond issue. There's been a number of reasons behind that, which we've articulated other times, that being that we've been concerned about liquidity and our existing benchmark lines and not having wanted to isolate liquidity for the purposes of doing a green bond.

Andrew Kennedy ([17:15](#)):

But more importantly, we're taking a bigger picture view around what we think is the best approach and SAFA's approach for a long period of time has been that we want to be able to create an across government framework for sustainability that will see ultimately our whole program being certified under an ESG criteria that meets the United Nations Sustainable Development Goals.

Andrew Kennedy ([17:38](#)):

We think long term, this is the best approach to be able to ensure that investors have a clear line of sight around the way the state conducts its business. When you look at what the state does already in terms of environmental: it's focused on renewable energies and building out its capabilities in that space. It's focused on social regarding health and education, such as the treasurer outlined. And then the strong governance framework, including the government's commitment to sustainable net debt. These initiatives are already in place and we will be able to capture these to help give investors better visibility over the way that the state manages its finances and SAFA is able to be a sustainable issuer.

Anna Hughes ([18:18](#)):

What is the impact on the state's credit rating?

Andrew Kennedy ([18:21](#)):

The rating agencies have been doing a lot of work around incorporating a states sustainability into its ratings. Ultimately, I think it will have an impact on how the state achieves its credit rating. Although there's a lot of work being done by the rating agencies around what this looks like, so we're going to be a very interested observer to the processes.

Anna Hughes ([18:43](#)):

Thanks Andrew. Thank you to the Treasurer and Andrew Kennedy for providing their insights into this financial year. For more information, visit the SAFA website at safa.sa.gov.com.au. And please follow us on LinkedIn. Thank you.