

# PUBLIC

## THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON WEDNESDAY, 26 MARCH 2025

### INQUIRY INTO THE TT-LINE SPIRITS PROJECT

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**The Committee met at 9:31 am.**

**CHAIR** (Ms Forrest) - Welcome, Heath and Tony, to the Public Accounts Committee hearing into the TT-Line vessel replacement and the delivery of the new berthing facilities at Devonport. The purpose of today's hearing is to understand more about TT-Line's financial management and the treatment - or the breach that you described in our GBE hearings last year, and to further understand that and the implications for TT-Line.

I know that you're very well aware of procedure, but just to remind you that everything you say is covered by parliamentary privilege that may not extend beyond the hearing. It is a public hearing unless there's something of a confidential nature you wish to share with the Committee, and you can make that request. It is being broadcast and transcribed.

Unless there's any other questions, I'll invite you both to do the statutory declaration and then if you'd like to make some opening comments. The members of the Committee that were not on our Government Business Scrutiny Committee have looked at the *Hansard* of the evidence you provided earlier on that matter, so thanks.

**Mr HEATH BAKER**, CHAIR, and **Mr TONY FERRALL**, CHIEF EXECUTIVE OFFICER, TASMANIAN PUBLIC FINANCE CORPORATION (TASCORP), WERE CALLED, MADE THE STATUTORY DECLARATION, AND WERE EXAMINED.

**Mr FERRALL** - I have prepared an opening statement. It covers the issues that I think you would want to delve into. I've got copies of the opening statement which I can provide now -

**CHAIR** - That'd be helpful.

**Mr FERRALL** - so you can actually follow through the statement. I'll see if we can make arrangements maybe to get it emailed to Bec. We'll see if you can facilitate that. Apologies, I didn't realise we wouldn't have all members here.

**CHAIR** - That's alright.

**Mr FERRALL** - Thank you for the invitation to attend the Committee's inquiry into the TT-Line *Spirits* project, and your request to provide further detail with respect to TT-Line's breach of its debt arrangements with TASCORP in late 2024.

Through the opening statement, I intend to outline the background and context of the lending covenants we have in place with TT-Line, including a timeline of the events for the recent breach. I believe this will provide the Committee with the information it seeks. Heath and I are also happy to address any other issues that would assist the Committee in its inquiry. I'm also quite happy to address questions as I go through the statement, if that assists the Committee.

Before dealing specifically with TT-Line, I'd like to provide some brief general comments regarding TASCORP's lending and in particular the loan arrangement TASCORP has in place with borrowing entities.

As you would be aware, TASCORP's principal role is to develop borrowing and investment programs for participating authorities, which include state authorities - which are defined under the act - and local government authorities. For all participating authorities other than general government borrowing undertaken through the Department of Treasury and Finance, TASCORP has in place a Master Loan Facility Agreement (MLFA). MLFA set out the terms and conditions of all borrowings, including appropriate financial covenants. The financial covenants are the promises or agreements entered into by the borrowing party that are financial in nature. An example of a financial covenant is when a borrowing entity agrees to maintain staying above or below an agreed ratio. Common financial ratios used include interest coverage ratio, total assets to debt ratio, or debt to equity ratio. There's no defined scope as to financial covenants. You could have a whole range of different financial covenants.

Depending on the terms agreed in the MLFA, breaches of financial covenants may be a Notice of Acceleration event or may give rise to an obligation for the client to advise TASCORP of the breach, the latter of which I'll refer to as a Notice of Advice event. As is implied by the terminology, a Notice of Acceleration event gives TASCORP the right to accelerate any outstanding loans. Effectively, they are a default event giving task or the right to immediately call outstanding loans.

A Notice of Advice event creates an obligation for the borrower to advise TASCORP of any actual or potential breaches in the financial covenants, hence acting as an alert to TASCORP in the event that the borrowing entity is not operating in line with parameters identified when the loan was established. These are generally based on the parameters in the borrowing entities business. A Notice of Advice event does not give TASCORP rights to call outstanding loans.

In addition, TASCORP's default lending security position is to take a charge over the revenues of the borrowing entity. Following legislative amendment, TASCORP also holds a government guarantee under section 15A of the *TASCORP Act* for scheduled organisations up to the limit determined by the Treasurer.

I will now give a brief chronology of the loan arrangements for TT-Line in relation to the financing of *Spirits IV* and *V*. This brief overview only details a limited number of key events considered by the TASCORP board and management since 2018. However, over the period in question, most board meeting minutes would include references to TT-Line. In addition, file notes of senior management meetings and briefings between TT-Line and TASCORP also provide further detail.

In January 2018, TASCORP board approved a borrowing limit of \$620 million for the construction of two new vessels, subject to the Treasurer providing a supporting letter of comfort. At the time, the board noted that the requirements for a letter of comfort did not reflect the board's unease or discomfort with the core assumptions underpinning TT-Line's business case, but rather the inherent risks of relying on the business case projections, which showed a significant increase in total passenger and freight yield, and the inherent risks associated with the long-term nature of the ship construction contract.

**CHAIR** - We'll let you keep going, there are some questions, but I think we'll come back. If you could keep going and we'll come back to those matters.

**Mr FERRALL** - Thank you. The financial covenants in TT-Line's Master Loan Facility Agreement at this point in time were an interest coverage ratio of 0.4 times, a financial leverage ratio of less than 350 per cent, and material adverse change of less than 10 per cent. The definitions of those ratios are actually at the back of this paper I provided as well.

The MLFA had been in place for some years and the loan covenants related to previous TT-Line borrowings which had been repaid. At this time, project business case modelling indicated that the interest coverage ratio was forecast to drop to 1.46 times during the construction period of the new vessels. Under the MLFA in place at this point in time, the interest coverage and financial leverage ratio covenants were Notice of Acceleration events. If a breach of a covenant occurred, TASCORP had rights to issue TT-Line a notice requiring it to immediately repay its loan.

In April 2018, TASCORP's board approved an increase in the borrowing limit to \$665 million for the replacement of the TT-Line vessels, due to variations in the contract price of the vessels and to cover the exchange rate of the purchase. Again, subject to the Treasurer providing an updated letter of comfort, notwithstanding this increase in the facility limit, TASCORP is of the view that the project remained financially viable. That's effectively from the minutes of our board meetings at that point in time.

Notwithstanding a limit in place, TT-Line did not borrow from TASCORP until 2023, as detailed in attachment 1. There's a schedule of when TT-Line borrowed and how the limit changed over time attached. I note also that at that time the vessel replacement fund had a balance of approximately \$80 million in June 2020.

Over the period of 2018 to November 2022, there were numerous interactions between TT-Line and TASCORP. These related to hedging contracts for the foreign exchange necessary for the vessel purchase and interactions in regard to the financial difficulties experienced by Flensburger Schiffbau-Gesellschaft (FSG). TT-Line undertook negotiations with Rauma Marine Construction (RMC).

There are also interactions in relation to the COVID guarantee put in place by the then-treasurer for all TASCORP borrowing entities. The Vessel Replacement Taskforce investigated options for greater involvement of Australian business in the replacement of the TT-Line vessels. I won't go through those interactions in detail, but they are recorded in various TASCORP management file notes, credit Committee papers, board papers and minutes.

In November 2022, TT-Line's borrowing limit was increased to \$745 million, subject to the receipt of a deed of guarantee from the Treasurer. The MLFA covenants were also updated to better reflect the then-revised business case. New covenants included an interest coverage ratio of one times, financial leverage ratio of less than 75 per cent, and material adverse change of less than 10 per cent. At the time, updated project modelling indicated the interest coverage ratio was forecast to drop to 1.58 times. The covenant was therefore set at one to provide a buffer for operational flexibility.

Due to the support from the Treasurer through a deed of guarantee, breaches of the interest coverage ratio and financial leverage ratio covenants were changed from notice of

acceleration events to notice of advice events. While this change removed TASCORP's right to accelerate loans, TT-Line was required to advise TASCORP of any actual or potential breaches in these covenants, hence acting as an alert to TASCORP in the event that TT-Line was potentially no longer operating in a manner consistent with its revised business case.

Over the period of November 2022 to August 2023, TASCORP interactions with TT-Line included information related to RMC cash flow issues and Devonport Berth 3 potential cost increases. In August 2023, TT-Line advised TASCORP that - and this is a quote from the email we received at the time:

Expected cost to complete berth 3 infrastructure escalated significantly once tenders were received for the majority of the works.

On 29 November 2023, the TASCORP board approved an increase in the vessel replacement project loan facility limit from \$70 million to \$990 million, and maintenance of the \$45 million working capital facility. It also approved amendment of the vessel replacement project loan facility limit term limit from 15 years to 25 years.

During the period of December 2023 to April 2024 there were various interactions between TASCORP, TT-Line and Treasury, including advice related to the potential insolvency of RMC, and TT-Line agreeing to pay an additional €50 million and waive cost escalation and time overrun penalties to support RMC cash flows. TT-Line advised TASCORP that it would meet the additional payments required within its existing borrowing limit. It should be noted that this period also encompassed the caretaker period preceding the 2024 election.

On 8 August 2024, TT-Line advised TASCORP that, as a result of changes in financial forecasts, TT-Line is expected to breach the interest coverage ratio and financial leverage ratios as outlined in the current MLFA. TT-Line sought confirmation from TASCORP that the borrowing would not be called as a result of the breach.

On 12 August 2024, TASCORP responded confirming receipt of the advice, and also confirmed that while TASCORP holds both a valid, executed security deed and a guarantee under section 15A of the TASCORP act in an amount equal to or exceeding TT-Line's outstanding liability to TASCORP, TASCORP does not have the right to accelerate the loans.

On 14 August 2024, TASCORP's internal credit Committee was provided with an out-of-session paper outlining the analysis of updated financial forecasts, which indicated a deterioration in TT-Line's forecast profit. The Committee noted that a borrowing review would be undertaken once the updated long-term financial forecasts were received from TT-Line. Detailed Committee minutes were recorded for the benefit of the TASCORP board.

On 28 August 2024, the TT-Line update was discussed at TASCORP's board meeting, at which time the board supported the decision of the credit Committee that the borrowing review be brought forward. It should be noted that borrowing reviews are a normal annual process undertaken by TASCORP in relation to its clients, and the advice of TT-Line in regard to its deteriorating financial position led to TASCORP bringing forward the review. A review would have been undertaken in any event.

## PUBLIC

Since August, significant ongoing discussions and correspondence have taken place with TT-Line as to the progress of its long-term financial forecasts. Key updates to date are as follows:

- At the 30 October 2024 TASCORP board meeting, the board sought an update from management and received further confirmation that management would review TT-Line's credit assessment once updated financial forecasts became available. Noting that the client's business case had now changed significantly since the original approval.
- On 7 November 2024 TASCORP forwarded TT-Line a detailed list of questions in order to progress the borrowing limit review.
- On 18 November 2024 the Acting CEO of TT-Line, Kym Sayers, provided TASCORP with an update on various matters, including advice that TT-Line was still in the process of developing updated financial forecasts based on the latest available information.
- On 15 January 2025 TT-Line provided interim responses to TASCORP's questions for the borrowing review. At this time, TT-Line was expecting that full financial forecasts would be provided to its board at or before its February meeting, once the revised costs for the berth 3 project were known.
- On 4 March 2025 TASCORP received TT-Line's unaudited interim report for the half year ended 22 December 2024. As previously advised by TT-Line, it was not in compliance with the interest coverage ratio for the first six months and the coverage deteriorated to 0.15x. TT-Line remains in compliance with other MLFA covenants.
- On 12 March 2025 TASCORP's CEO met with the new TT-Line Chair. Advice received at this meeting indicated East Devonport development's scope and costings are currently being refined and will be available soon. Cost increases are expected, but cannot be quantified at this stage. An increase in TT-Line's borrowing limit will be required, encompassing the East Devonport development and additional operating expenditure of the now-extended construction period.
- The current borrowing limit is anticipated by TT-Line to be sufficient until September 2025. At this point in time, TASCORP is still awaiting TT-Line's updated financial projections and revised business plan to enable it to progress its borrowing review. To date, TT-Line has continued to fulfil all financial obligations to TASCORP as and when they fall due.

As I said, there are a number of attachments to this, including the borrowing limits history and the MLFA compliance, also some definitions in relation to the ratios that were described in the earlier statement.

## PUBLIC

I'm happy to address any questions you may have.

**CHAIR** - On some of the documentation that sits behind some of this, like the sections of meeting minutes and things like that that refer particularly to the TT-Line. Are you able to provide those to the Committee? We don't want the whole shooting match because, obviously, there's a lot of business that goes on with TASCORP.

**Mr FERRALL** - The answer to that is yes. My preference would be if the Committee would consider those in camera. Basically, because they're board minutes, they reference other matters. I'm comfortable that the Committee can make a judgement as to whether the Committee keeps them in camera. That's a matter for the Committee. I think if we provide them to you, I'd like confirmation that the Committee would consider them in camera when we provide them.

**CHAIR** - I think you can take that as a given that we would consider them in camera. If there's anything that we thought maybe should be made public, we would certainly come back to you on that.

**Mr FERRALL** - Yes, because I'd also need to provide some of the management internal minutes as well, which again, they're not necessarily written for a broad audience, they're written as internal minutes from meetings.

**CHAIR** - There's also, on 14 August 2024, the Credit Committee provided an out of session paper. I'm not sure if you can provide a copy of that paper?

**Mr FERRALL** - We can provide - from TASCORP's perspective, we're happy to provide any of our internal papers and matters, provided they're in camera.

**CHAIR** - Sure. The Committee, normally we'd deliberate on that, but I think, with respect to the sensitivity of the information, you can be fairly confident that that would be accepted.

**Mr FERRALL** - We'll provide those and with a schedule summary.

**CHAIR** - That'd be helpful.

**Mr FERRALL** - As I said, if there's any other papers - once you've got those that you need - we're happy to provide them - or find them.

**Mr WILLIE** - Back when you told government business estimate scrutiny hearings that you're expecting the financial forecast from TT-Line imminently, that's why you said that the review was imminent. Obviously, some things have happened since then, but my question is, where's this all heading? Is there going to be a scenario where the state government has to bail out TT-Line? There's obviously ongoing scope and cost projections around Devonport, and there's going to be an increase in TT-Line's loan facility. Is there a limit to that, or are the terms going to be changed again, or will it require a combination of that and a bailout from the state government?

**Mr FERRALL** - It's difficult to answer that in the absence of having revised projections for TT-Line. I think there are a number of aspects that are obviously negatively impacting the

TT-Line's original business case, which TASCORP will need to consider. Clearly, there's an escalation in costs which we'll need to consider, but we don't have details of that yet. There's a deferred timeframe for revenues for TT-Line. There's also a period of time when they are effectively owning but not operating two, potentially four, vessels, which entails additional costs for TT-Line. The expenditure side of the equation has changed considerably. What we don't know is whether the revenue side may have changed as well, either positively or negatively, depending on what revised position TT line has.

In the previous iteration of the TT-line business cases, we increased the loan term from 15 to 25 years. Effectively, why we went to 25 years, was it's still - in TASCORP's view - left TT-Line in a position with retirement of debt after 25 years and then potential moving into replacement vessels in 20-25 years plus timeframe.

**CHAIR** - Let's hope it's done more smoothly next time.

**Mr FERRALL** - There is an outside limit in terms of how far you would extend the loan term, because it wouldn't be sensible to -

**Mr WILLIE** - Impact the future replacement.

**Mr FERRALL** - Yes, the future replacement. As a personal view, I think there's going to be some challenges for TT-Line because of the factors I've outlined in terms of the additional costs. Without saying government will need to do something, it could well be that TT-Line is in a position where it needs some form of equity or other support because it's not able to borrow the full amount that might be required going forward. That's unknown at this stage. The reality is that if they can't support that level of borrowing, then given the nature of the vessel and its importance to Tasmania, quite obviously the government would need to provide some level of support if those costs are so high.

**Mr WILLIE** - It sounds like you have no ability to call the loan back in now, because that was changed from a Notice of Acceleration to a Notice of Advice under the new term changes.

**Mr FERRALL** - The question I would pose is why would we call the loan when they're meeting all of their obligations at this point in time. Then, from a purely practical point of view, if TASCORP called the loan then effectively we'd be putting TT-Line in an insolvent position. The outcome ultimately would be that the government would need to step in. There isn't really a scenario that makes sense where TASCORP would take over the vessels and operate TT-Line.

**Mr WILLIE** - There is a scenario there where you're so concerned about them not meeting their obligations that you need to trigger some action from the state government though.

**Mr FERRALL** - Yes, and again, just to be clear, we have a guarantee from the state government, or from the Treasurer, so TASCORP narrowly is not at risk. The reality is that we are part of the broader Tasmanian framework, and it wouldn't necessarily come to pass that TASCORP would call the loan in circumstances where we ultimately trigger the Treasurer's guarantee. We would go through a whole range of remedies to try and find better ways to resolve or support TT-Line and support the facilitation of the *Spirits* across Bass Strait.

**Mr WILLIE** - That was the rationale for why you changed from a Notice of Acceleration to Advice?

**Mr FERRALL** - It was part of the rationalisation. We operate as a lender and we keep all of the ammunition, I guess, that a normal lender would have as leverage to ensure that we do get repaid. TASCORP doesn't have capacity to operate if our clients don't meet their loans either. We have counterparties on the other side who we have to pay obligations to as well. If an entity went into a true default where it impacted significantly on the capacity for TASCORP to obtain revenues, then we would have challenges operating.

**CHAIR** - On a couple of those points, if I might. During that period, what interaction do you have with Treasury and the Treasurer? Obviously, you're having regular interactions with TT-Line as the borrower, but -

**Mr FERRALL** - We have regular meetings with the Treasurer. I might just take one step back. During the period whilst I was secretary of Treasury, a lot of the interactions would have been linked to meetings with me as secretary of Treasury. There weren't necessarily a significant number of formal meetings with me as Chair because I was meeting with the Treasurer as secretary of Treasury.

Since I haven't been the secretary of Treasury, we have instigated formal meetings with me as Chair. We've had meetings with the previous treasurer, Mr Ferguson, and we've also had meetings with the current Treasurer as well. With the previous treasurer, we attempted to schedule those approximately every two months after our board meeting. With the current Treasurer, again, we have those scheduled and in my term we have at least another two meetings before the end of this financial year. They're scheduled out as well.

**CHAIR** - During the period when a lot of this was going on - and still there's a lack of certainty around the ultimate cost of the delivery of the berth 3 infrastructure at Devonport. That is all fed back to the Treasurer or is the Treasurer separate to this? I'm interested in what sort of discussions you have, and have you raised some concern that we still don't have an indication of what the cost is going to be, and to establish the new arrangements?

**Mr FERRALL** - We've raised those as a concern, from a TASCORP point of view, that we can't undertake a review and we can't ascertain what the future position will be until at least we have some projections from TT-Line encompassing the additional costs that they believe they will need to meet. When we get those, what we would be doing is sensitivity testing those, so we don't just take them as, 'Here's the projections' and at face value. We'll need to go through that process. Within that process, we identified particular concerns around the projections, and we would highlight those with the Treasurer as well.

Ultimately, given that the Treasurer is guaranteeing these borrowings.

**CHAIR** - That's right, the Treasurer should be well aware of the challenges. There should be no question that the Treasurer is well aware of correct that.

**Mr FERRALL** - Correct, but we might put a particular view on it from TASCORP from a lender's perspective, which would not necessarily be the same perspective that other parties would use.



## PUBLIC

**Mr WILLIE** – Which is what sounds like what happened originally when you had concerns around the business case and the projections within it and you needed a letter of comfort.

**Mr FERRALL** - Yes, if you go back originally - and the statement tries to outline - that there are inherent risks associated with a major project of this nature. From a TASCORP perspective, it wasn't necessarily that we were overly concerned about the business case, but we recognise that there were inherent risks in a major infrastructure project like this that we, again, highlighted at the time to the Treasurer. It wasn't that we were - we did sensitivity test the original business case and it was a strong case. There were some aspects of it which, from a board perspective, we might have thought were overly optimistic. Even when we sensitivity tested those, they tended to provide a positive outcome still.

I think what you probably need to consider in some ways is that the TT-Line position has changed substantially now, because in some ways they've had what you might call a perfect storm in terms of all of the things that could go wrong -

**Mr WILLIE** - Could go wrong.

**CHAIR** - They're still going wrong.

**Mr FERRALL** - have gone wrong. They all imply additional costs, additional borrowing, changed timeframes for return, holding the existing vessels for a longer period of time, potential for the return on the sale of those vessels to be different to what might have been in the original business case. There's a whole raft of things that now, when we get the revised business case, we'll need to unpack and work through.

**CHAIR** - That's what I was going to ask about. It seems that, at the moment particularly, it is the perfect storm, if you like. They've made a decision, the Committee certainly understands the reasons that sit behind that decision to pay the extra €50 million to secure the delivery of the vessels. Then, we didn't have the berth and the cost of that appears to be - well, we don't know what it is yet, but it's going to be obviously more than what was anticipated. They can't sell the current vessels, but they've still got two on the water; the one that's in Leith and one that's due to be completed in Finland fairly soon. They've got all these costs, but no increased revenue at this point and the value of the current vessels may be reducing over time because they're older. This is what's going to be fit in to the business case, no doubt?

**Mr FERRALL** - It'll need to be, yes. As I said, I don't want to say that the business case won't be still positive. TT-line is a good business -

**Mr WILLIE** – Profitable.

**Mr FERRALL** - It's a profitable business. In some ways it runs an effective monopoly. It might be that even with those factors that it's still unable to support the level of debt that might be required now in circumstances where you have cost increases related to the project itself and you have a longer period of deferred revenue, effectively. We may find that, from a TASCORP perspective, it's difficult for us to support the level of borrowing.

**CHAIR** - In that circumstance, what would TASCORP's action be? If you could talk us through - if the business case, under your assessment, when you look at it and consider the

request for borrowings, and you think, 'This just doesn't work for us', because you're a government-owned business too. You have responsibilities under your act and under other legislation. What would be your approach at that point?

**Mr FERRALL** - We would effectively engage with the Treasurer in relation to our assessment. Ultimately, TASCORP will lend to any entity that the government of the day wants to lend to and guarantee. If we don't, then what would happen? We have to facilitate that. However, there might be circumstances where we don't support it. We have entities now who don't necessarily have the capacity to meet the loans they've got without government support.

Homes Tasmania is a case in point. We have a limit around how much we will lend to Homes Tasmania. That is worked in conjunction with the treasurer of the day, and we know that the treasurer of the day is going to appropriate sufficient funds to support the borrowings to Homes Tasmania.

I'm not saying TT-Line will be identical to that, but you might find that there needs to be a scenario where TT-Line doesn't pay any dividends, that it might need additional equity from the government to reduce the borrowing. Then you might find the business case works. Again, that's assuming it doesn't work in the first place.

**CHAIR** - That would be a matter for the government, obviously, with regard to the payment of dividends. TT-Line did have the 'dividend holiday' for that period to save the money that TASCORP then had to look after because they couldn't be trusted - according to the Liberal Party at the time - to manage that money effectively. Anyway, that's all gone now, isn't it, that whole -

**Mr FERRALL** - Yes, the replacement fund is zero.

**CHAIR** - Zero balance?

**Mr FERRALL** - It's closed.

**CHAIR** - Ultimately, TASCORP make a decision about the level of borrowings that you believe - that TASCORP believe - is sustainable and makes sense for your business, and the government may need to assist.

**Mr FERRALL** - Bail-out.

**CHAIR** - Yes, assist by either equity injection and/or dividend holiday and/or other mechanism?

**Mr FERRALL** - Yes. That's on the presumption the business case doesn't support the level of borrowing. It may well be that TASCORP assesses it and we're comfortable that there isn't any particular risk. As I said, TT-Line is a substantial business, it is a high cashflow business. It has had significant growth in the past where it's had new vessels, there's been an uplift in demand, which has boosted their revenues. Again, we'll need to assess those factors and whether or not we have the same view that they're likely to happen again.

**CHAIR** - Do you have an expectation now of when you are likely to see the business case, to enable you to undertake that review?

## PUBLIC

**Mr FERRALL** - We have advice from TT-Line that it's imminent.

**Mr WILLIE** - That was the same as last year.

**Mr FERRALL** - I'm not being critical of TT-Line - I understand that particularly with the new berth, that is a significant component and driver. Until they've finalised issues around that, they don't know the full cost, and they don't necessarily have an accurate timeframe until they've finished working through that. Both those factors are pretty significant in the business case.

**Mr WILLIE** - In terms of the business case, how likely is it, in your view, that the state government will have to intervene - given the perfect storm that you've described?

**CHAIR** - At least in the short term.

**Mr WILLIE** - Yes.

**CHAIR** - Until they're able to see more revenues flow in.

**Mr FERRALL** - I think it's more likely than not, but again, that's a subjective view based on my understanding of their previous business cases and the potential escalation in cost and change in timeframes. There are other factors that have changed as well. The original business case contemplated borrowing at a particular point in time, and at that point in time, the debt costs were lower than they are now. When you update that factor as well, it'll change substantially the metrics in the original business case.

**Mr WILLIE** - A downgrade in our credit rating - will this impact some of these scenarios?

**CHAIR** - Should the state's credit rating be downgraded, yes, should it.

**Mr FERRALL** - I guess in my role as Secretary of Treasury, I've discussed rating changes numerous times to various Committees. It's not automatic that there is a higher debt cost associated with a downgrade, but it's fair to say that, all things being equal, a lower-rated entity pays higher for debt than a higher-rated entity. However, all things are not always equal.

**Mr WILLIE** - Well, the market will price it in on the lead-up to a downgrade, so it's not like overnight we have this massive interest bill that we didn't have.

**Mr FERRALL** - Correct. Things change over time. It also depends on the markets we're accessing at the time. We have had numerous discussions at this Committee, and probably not conducive to going through them all here again, but all things being equal, though, a lower-rated entity will pay higher debt costs than a higher-rated entity. All things are never always equal. There are differences at the point in time.

**Mr WILLIE** - In terms of a revised business case and the terms of the loan, how much of a factor is the next replacement vessel period, and how far can you extend out the loan terms?

**Mr FERRALL** - Theoretically you could extend it out indefinitely, but then you would have a scenario where the vessels need replacement and you still have debt from the previous

## PUBLIC

vessels, so it wouldn't make sense. We adopted 25 years, broadly - and Heath might correct me - on the basis that the lifespan of the vessel might be around 35 years. If it went to 25 years, that still gave TT-Line a period of time where it could accumulate some funds towards potentially replacing another vessel.

**CHAIR** - And still have a vessel that's sailable.

**Mr FERRALL** - Yes. The minimum you could expect TT-Line to meet in a cost sense would be at the effective interest cost of a facility. It's a bit like, do you run interest-only forever or do you look at finding a sensible way to amortise the debt over time?

**Mr WILLIE** - It's a heavily depreciating asset, so that's probably not the best approach.

**Mr FERRALL** - It's not necessarily how you would operate, personally, if that was your choice.

**CHAIR** - Also you have the port infrastructure that fits into this. I mean, with a replacement vessel you may or may not need, in 25 or 35 years, a new port facility.

**Mr FERRALL** - Look, 25-35 years is a long period of time. The world may be quite different over that period of time in terms of how we travel back and forth.

**CHAIR** - We might have our little jet packs by then and not need to go on a boat.

I really appreciate the way you've laid this all out for us. It's helpful to see the whole background. I guess it's just a waiting game now, really.

**Mr FERRALL** - Yes, and we'll update our business case. Sorry, our analysis. One thing I would just point out to the Committee, the analysis that TASCORP does is for its own internal lending purposes. We will not be preparing an analysis on the basis of public consumption or a report to be made public. Generally, we would not make those reports public. Again, I'm not, in that point, saying we won't provide it, but they're not prepared for that sort of purpose. Management will be preparing a report for our board, and a bit like the board papers, if the Committee called for that report, when and if it's prepared, my advice would be that the preference would be that it's done in camera as well.

**CHAIR** - In terms of trying to understand what the likely timeline could be, we know we've heard 'imminent' a few times from TT-Line. If it was provided imminently - the business case, this is - like, within the next three or four weeks. What's the usual amount of time it takes for TASCORP to do the work to prepare the report or for the management team to prepare the work report for the board's consideration? Is it weeks, months?

**Mr FERRALL** - Look, it's weeks, not necessarily months, but it depends on how much interaction we need to have with TT-Line and what we may need to go back and forward with them on.

**Mr WILLIE** - You've got an effective end date, in terms of September 2025 when the borrowing limit won't meet their current needs, so unless it gets finalised by then

**Mr FERRALL** - Yes.

## PUBLIC

**CHAIR** - Someone would expect it to be finalised -

**Mr EDMUNDS** - Do you get any kind of steer from them about when this might be [inaudible]?

**Mr FERRALL** - My understanding, and Heath met with the chair recently, my understanding is that either this month or next month they were considering -

**Mr BAKER** - It was this month's board meeting that they were expecting to have some revised numbers up for the board -

**Mr FERRALL** - Their board.

**Mr BAKER** - For their board to review, at which time they were hoping to be able to provide us with some draft longer-term financial forecasts post that, once the board's feedback had been incorporated into that. Yes, we understand it. It is imminent. Based on those conversations, the team are ready to do the review. Obviously, we did a very comprehensive review several times, so the template is there. We need the numbers, the assumptions, and then we can ask the appropriate questions and identify the relevant risks or changes in risks in that business case.

**CHAIR** - How would we know that the report's been prepared and provided to the board? Would you let us know of that in case you wanted to review it or should we just write to you in two months' time?

**Mr FERRALL** - I'm happy to commit to you that when we receive the updated business case from TT-Line, we will make the Committee aware that we've received it.

**CHAIR** - Okay, that'd be helpful.

**Mr FERRALL** - I don't know. I can't -

**Mr WILLIE** - I'll stop calling for it in the media then.

**CHAIR** - In terms of their Master Loan Facility Agreement and the terms and conditions that are set out in that, is that a TASCORP decision or does Treasury have some input into that?

**Mr FERRALL** - That's a TASCORP decision.

**CHAIR** - It's entirely your decision to set those parameters?

**Mr FERRALL** - For every entity, we have an MLFA. They're mostly, sort of, identical, but specifically, in respect of different lending, we have some parts of it that are more bespoke. Things like the covenants are really developed on the basis of discussion with the relevant entity, but they're driven by TASCORP rather than Treasury. Treasury has nothing to do with those agreements.

**CHAIR** - Okay.

## PUBLIC

**Mr WILLIE** - They're done in consultation with the entity? Obviously, they don't get the final say?

**Mr FERRALL** - No. We're doing it for TASCORP purposes. I think they are of benefit to the entity as well because they should be monitoring those things. I'd be surprised if they're not.

**Mr BAKER** - There definitely is consultation and they are linked back to industry benchmarks, but yes, it is ultimately a TASCORP decision as to what we believe the appropriate financial [inaudible] are.

**CHAIR** - The ratios would obviously reflect the nature of the business because -

**MR FERRALL** - Just for clarity around the ratio. Some of those ratios would potentially be lower than you would find in an industry benchmarking type scenario. Some of them would be higher as well. You need to be careful you do not make comparisons of some of those particular ratios and then compare those to industry benchmarks and try and draw some conclusion from that. You would probably be drawing the wrong conclusions. They're developed around the particular business case and the particular lending that we're undertaking.

**CHAIR** - And the capacity to repay their debt?

**Mr FERRALL** - Yes.

**CHAIR** - Those who do not make much money would find it harder, obviously, and the ratios would reflect that?

**Mr FERRALL** - The ratios are designed to give an early warning on the basis that they're not performing in line with their business case. We effectively start with the business case and then put some parameters around that which might give a margin of error, so that if they're not performing how they believed they would, provided we're comfortable with that, we'll get some form of early warning on that.

**CHAIR** - Okay. Any other questions?

**Mr WILLIE** - Thank you for the update. It's been a few months of 'what's going on?'

**Mr FERRALL** - I'm sorry I couldn't -

**CHAIR** - Is there anything else you wanted to add that you haven't that you think would be helpful for the Committee?

**Mr FERRALL** - I'm not sure it would be helpful for the Committee, but a number of the government entities are not performing as well as they might have been a few years ago. There's a reality around that. Some of them, the parameters they're operating within are changing, and the risks for those entities are probably increasing. My general expectation is that the performance of government businesses, in a financial sense, is probably likely, as a broad sense, to decline over the next few years for some of them. Again, there'll probably be more issues that need to be worked through and addressed.

## PUBLIC

**CHAIR** - Is TT-Line the only company currently that has breached any of its lending covenants?

**Mr FERRALL** - I don't know if we have any -

**Mr WILLIE** - TasRail, I think there was a -

**Mr FERRALL** - We have had.

**Mr BAKER** - We've been advised that one other client is likely to breach, as of 30 June, which we're working through with them at the moment. Once again, I would have to take it on notice, whether it's a Notice of Acceleration or Notice of Advice event. The client has engaged early, identifying that they are likely to be in breach as of 30 June.

**CHAIR** - Which is what you want.

**Mr BAKER** - Exactly, that's the whole intent, to instil the commercial discipline upon clients to monitor their financial performance.

**CHAIR** - Okay. We might just ask you for some update on that. Not that it's terribly relevant to this Committee, but I think it's important from your point, Tony, that there are a number of our businesses who borrow through TASCORP that are facing different operating environments at the minute. The fact that TT-Line have experienced this challenge is important, but not necessarily completely unexpected. Is that a fair comment?

**Mr FERRALL** - I'd have to say it would be unexpected that TT-Line faced all of the parameters that it has had to face in one hit. Our business case assessment of any entity would rarely pick up if everything goes wrong.

**CHAIR** - Your risk assessment wouldn't do that; it would look at what are likely delays in this delivery?

**Mr BAKER** - We would probably need lend if we did that.

**Mr FERRALL** - No, that's right.

**Mr BAKER** - If we assumed everything went wrong - so there is a bit of judgement in how many downside scenarios you build into your analysis.

**Mr WILLIE** - No risk reports then?

**CHAIR** - If you modelled all the risks associated of what could possibly go wrong, going wrong all at once, you'd probably say 'No, we are not going to lend to you'.

**Mr BAKER** - That is exactly right, yes.

**CHAIR** - Thanks very much for your time today, Tony and Heath. We appreciate that.

**The witnesses withdrew.**

# **PUBLIC**

**The Committee suspended at 10:25 am.**