LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Tuesday 2 December 2014

MEMBERS

Mr Armstrong
Mr Farrell
Ms Forrest
Mr Gaffney
Mr Hall (Chair)
Mrs Hiscutt
Mr Mulder

IN ATTENDANCE

Hon. Peter Gutwein MP, Treasurer

Ministerial Office

Adrian Christian, Chief of Staff

Tasmanian Public Finance Corporation

Mr Don Challen, Chair
Mr Stephen Rochester, Chief Executive Officer

The Committee resumed at 4.12 p.m.

CHAIR - Thank you and welcome, minister. If you would not mind introducing the two gentlemen to your right for the purposes of *Hansard*, please.

Mr GUTWEIN - Don Challen, the Chairman and Stephen Rochester, the new CEO.

CHAIR - Thank you. Treasurer, would you like to make an opening statement or make a few comments?

Mr GUTWEIN - I will make just a brief opening statement. As members would know, this is my first appearance at a Government Business Estimates Scrutiny hearing on this side of the table. Interestingly enough, I have actually taken the time to go back and have a look. I think this is the first time that TASCORP has been in front of the upper House since about 2008.

I have with me Mr Don Challen, the Chair, and Stephen Rochester, the CEO. Don has been around for a while, but this is Stephen's first appearance at one of these hearings in the Tasmanian context, having started with TASCORP in September of this year. Just by way of background, Stephen was the CEO of the Queensland Treasury Corporation from 1991 to 2010 and so is very familiar with the business of central borrowing authorities. He also has a strong track record in public sector utilities and is, in my view, a very good pickup as the new CEO to replace John Hindmarsh.

I should also acknowledge John Hindmarsh's contribution to TASCORP. He was its CEO for around 12 years. John has taken up a position as CEO of the Queensland Competition Authority. Mr Challen might like to say a little bit more it but Mr Hindmarsh made a stellar contribution to the state's finances over that time.

It pleases me to show that TASCORP is one of the better performing businesses in the Government Business portfolio. The organisation has had a good focus on both performance and cost control over a sustained period. One of the interesting points I picked up in reviewing the annual report is that its operating costs for the year in question today are similar to what they were back in 2010-11. If only we could say that for a number of our government businesses across the board.

It is pleasing that TASCORP's focus on performance extends more widely than cost control. Last year TASCORP met or exceeded all of the financial and non-financial performance standards captured in its annual performance agreement. I will not run through what all of those are; they are in the annual report and members have that with them.

With that, Chair, I will hand over to questions.

CHAIR - Thank you, Treasurer. I have a couple of questions. The entity was set up in 1985 under the Tasmanian Public Finance Corporation Act. I understand what you do, to whom you lend and everything else. With regard to your own borrowings, getting your own capital money to lend in the first instance, the annual report says you raise funds in domestic and offshore capital markets. Could I have a little bit of an expansion of that, please?

Mr GUTWEIN - I might pass it over to Mr Challen.

CHAIR - There were some mysteries around this.

Mr GUTWEIN - I do not think he wrote the act in 1985 that brought TASCORP into being. However, he certainly has a wealth of experience and knowledge in this area, so I will pass over to him.

Mr CHALLEN - I did not escape from Canberra until 1986, so I was not involved in the process of setting TASCORP up.

We mainly fund ourselves with buying through what are called 'preferred stocks' or 'hot stocks' or 'bonds'. We issue long and deep lines of stock through intermediaries through the Australian market. These are just very conventional borrowing instruments that have been used for hundreds of years. The principle is that you exchange a piece of paper with a lender. It says, 'If you, the lender, give me, the borrower, $100 now' - in whatever period it is; let us say, 10 years - 'I will give you $100 back and, in between, every half year, I will pay you a particular interest payment based on what is called the "coupon". Let us say it is 5 per cent. So 5 per cent of $100 is $5. 'I, the borrower, will pay you, the lender, $5 twice a year every year until the 10 years is up and then I will give you your $100 back'. That is basically what it is.

We borrow $500 million at a time through instruments like that. At the moment we have preferred stocks in the market. Our shortest maturity would be about a year and our longest is June 2024, about 10 years. We have, I think, seven lines of stock on issue at the moment. It is not every year but we try to space an issue about every 18 months or so because that allows us to manage the exposures more effectively as we on-lend to our clients - government businesses and so on. That is our main form of funding.

We also issue commercial paper. Commercial paper are similar sorts of instruments but of much shorter duration. They can be as short as 30 days and up to a year. But typically we will issue commercial paper of 30, 60 or 90-day duration. We run two programs; one is in the Australian domestic commercial paper market and the other one is in what is called the ECP - the Euro commercial paper market. It is centred in London and Hong Kong but we issue basically all over the world, apart from the United States. Years ago we did issue in the United States but that market is difficult for us and we do not use it any more.

In the Australian market, we issue in Australian dollars. In the ECP market, we issue in a number of currencies and then exchange the proceeds back into Australian dollars. Essentially, they are our two major forms of funding and we manage all our client needs with those as required.

CHAIR - Just as a matter of interest, do other commercial lenders, such as banks, get their funds on a similar basis?

Mr CHALLEN - Yes and no. Banks issue what is senior debt or bonds, but they also have quite a range of instruments they use to make borrowing look a bit like capital. You can buy things called hybrids, for instance, and subordinated debt. These are more complex and elaborate instruments that are more risky than the bonds we issue which are at the lowest level of the risk spectrum for the finance market. Banks also fund themselves with deposits and term deposits which we do not.

CHAIR - While we are talking about deposits, I noticed in the annual report that some of the clients have dropped off and you have to consider that in the last four years deposits have dropped off some 68 per cent. I think it has gone down from $700 million in 2011 to about $400 million this year. Is that a concern to you? The Government's deposit portfolio has dropped off considerably.

Mr CHALLEN - There have been two important reasons for that and there are different factors at play. One is that our traditional depositors and the Government and the Treasury was the biggest of them, have been using up their cash reserves over the past few years and consequently have less cash to deposit with us.

The other depositors that have traditionally been with us, in the main, have not changed their volumes terribly much. There have been one or two that have slightly lower volumes but the other big factor at work is that the markets have changed and it is possible for depositors like the MAIB and the RBF, who used to deposit substantial funds with us, to get much better interest rate returns than we can get in the markets by going to the commercial banking sector. The banks are so aggressively chasing funding these days that they are prepared to offer interest rates for the odd $50 million or $100 million that the MBFs and the MAIBs of this world have to deposit at rates we cannot match.

CHAIR - Why can't you match those rates?

Mr CHALLEN - Essentially because of what we can do. If we take money on deposit from a client in a cash type product, we have to invest it in an asset that provides a return to the client but also is liquid enough that when the client wants it back at short notice we can liquidate it and provide them with the funds. That limits us to a range of instruments in the market that is very narrow and we do not have the size the commercial banks have to manage a big deposit portfolio where they have a very large number of depositors and a big customer base. We do not have that. We have a very small number of customers.

We have to invest instruments like bank bills which are very liquid, but they provide a relatively modest return relative to a term deposit of six months or a year's duration that you can get from a commercial bank.

The position we have adopted with our clients is that the most important, when they think about where they will go to deposit their funds, is that they get the best outcome in Tasmanian terms. If they can get a better return by going to a bank term deposit than putting it with a cash type product that we offer, we think it is better to help them do that and we have provided quite a bit of advice to clients about where they can go to get better returns because the better return they get, the better return there is for the people of Tasmania.

Looking after deposits is not our prime business, it is a service we offer our clients when we can. The most important thing that we are there for is to fund their borrowing needs and that we can do very cost effectively. Nobody can beat us at that.

CHAIR - That leads me to my next question apart from to the Treasurer. Obviously you are very happy to get that healthy dividend coming in and TASCORP being a profitable organisation. That was a question I was going to ask - the public sector clients that you lend to, you were saying you can do a much better deal for them rather than if they have to go out into the commercial banking sector.

Mr CHALLEN - That is right.

CHAIR - Even though they can offer better interest rates on deposits and all that sort of thing?

Mr CHALLEN - Yes, when it comes to borrowing nobody can beat us and we have proven that many times. We have a number of clients who have choices about whether they borrow from us or not. Local government does not have to borrow from us if they do not want to, but they can.

There have been many occasions over the years where individual local governments have gone to the banks to source their borrowing and got a quote and then come to us and got a quote and every time they will come to us because we are always cheaper.

The reason for that is that we are funding ourselves on the back of the Treasurer's guarantee so we have the credit standing of the State of Tasmania in the financial markets. We also issue long liquid deep lines of preferred stock, the bonds I was talking about earlier, and that is a very cost effective way to raise money. We pass that on to our clients. We take what it costs us to borrow the money. We add on the margin that reflects the costs that are involved in managing the risk associated with that. We then add on a very small administration margin to cover our internal costs which are pretty modest and we pass that on to the client. There is no profit margin added. We do not go through the process that a commercial bank would go through in ranking customers in terms of the riskiness of their borrowings. Essentially, if you have the credit worthiness of the state of Tasmania or a local government in Tasmania, we are happy to lend to you.

CHAIR - A final question I have. Another advantage you may give to your customers are some of the terms - the length of the loans are longer in duration and do you provide interest only for any given periods of time?

Mr CHALLEN - Almost all our lending is interest only. We do lend Credit Foncier, a traditional mortgage style loan where you pay equal instalments over the life of the loan, exhaust both the interest and the principal. Generally speaking, only our smaller borrowers and mostly they are in local government, are interested in Credit Foncier-style loans. Our big borrowers want to borrow interest only and then manage the refinancing that occurs at the end of the life of the loan.

CHAIR - The duration of the term?

Mr CHALLEN - We try as hard as we possibly can to meet whatever the client's needs are. The first question always to the client is what do you want, how do you want to manage this and there is often dialogue between us and the client as we help them through that process. We give a bit of free advice along the way.

We have not yet experienced a client who wanted to borrow longer than we could manage. The longest preferred stock we have out in the market at the moment is 10 years and that is pretty much the effective limit of the period at which we can lend. We have a number of clients who want to borrow shorter than we would prefer and we have a dialogue with them to try to encourage them to go a bit longer because we believe that is in the state's interest but it is the client's decision and we will meet whatever their needs are.

Ms FORREST - With regard to other states, do they take borrowings and source funds the same way as Tasmania or is that done differently in other jurisdictions?

Mr GUTWEIN - I am not sure what occurs right across the country. Mr Challen might or I am sure Mr Rochester would have a view, having come from a central lending authority in Queensland so if I could refer the question to him.

Mr ROCHESTER - Each of the states has a comparable body. New South Wales, Treasury Corporation. Victoria, the TCV. The same in Western Australia and the Northern Territory. Probably the only exception is the ACT where they run it as part of their Treasury operation. They do not have a customer base that requires it. Each state is the same but they operate slightly differently. For example, in Queensland, the QTC is not a government-owned corporation in a sense. The business enterprises and Tascorp is here, so there are different frameworks. There are also differences in scope in the sorts of services that are provided between the different states, depending on particular issues in that particular state.

Ms FORREST - With regard to page 36 of your annual report - financial instruments and risk management - are you able to provide a bit more information about the net financial derivative position?

Mr ROCHESTER - It is a question of how much detail you would like. The derivatives are generally just intrastate swaps. For example, we will issue bonds that are fixed rate, and pays a coupon every six months. We will sometimes swap that back to a floating rate, where the interest rates are payable monthly or generally quarterly. Pretty well all those derivatives relate to those sorts of swaps where we are converting floating interest rates exposure to fixed, or fixed interest exposure back to floating.

Ms FORREST - So pretty much all your assets and liabilities are subject to the swaps?

Mr ROCHESTER - Yes.

Mr CHALLEN - We issue almost completely at fixed interest rates, but to manage the interest rate exposures and mismatches in our balance sheet, we swap virtually all those fixed rate loans into floating rate. That is the most efficient way of managing the risk. We have a large swap portfolio that you see there in the balance sheet but it nets out to a relatively small number.

Ms FORREST - The fixed income fixed to the floating rate is where you get your financial benefit?

Mr CHALLEN - It is about making a risk go away rather than getting a financial benefit. We do not want to be exposed to the fact that over the life of a loan the interest rate will change and we will suffer a capital loss. By swapping fixed borrowings into floating rate, we keep both the asset side and the liability side of our balance sheet close to where the market is all the time. Consequently, there are no capitals gains or losses on holding the assets that are our lending to our clients or on the liabilities that are our borrowings from the marketplace. Our whole balance sheet is market to market. If we did not do that, there would be massive volatility in our reported earnings from year to year as interest rate movements change the valuation of our assets and liabilities.

Ms FORREST - So you are just trying to keep ahead of the game, basically?

Mr CHALLEN - It is making the biggest risk in the financial market go away.

Ms FORREST - Would any of the GBEs that borrow with you enter into swap arrangements on their loans with you?

Mr CHALLEN - I do not think they would on their loans with us because we lend to them in the form they want. Some of them will have swap positions on other facilities. For instance, it is in the public domain that Hydro entered into a swap with the Basslink facility fee. That was something they did directly with the market. We gave them some help with that right back at the beginning, but it is not a facility we have put in place for them; it is one they have done directly with the market. I cannot immediately think of any other client. Aurora and Hydro have had some loans in which they have swapped from fixed to floating on their own balance sheets.

Ms FORREST - Loans they had with you?

Mr CHALLEN - Yes. In those cases, we would have done the swaps.

Ms FORREST - Has TASCORP received any requests for additional borrowing arrangements for any of the state-owned companies or GBEs this coming financial year?

Mr CHAIRMAN - Yes. We have changes in exposures with most of our clients all the time. They are coming and going and just managing their cash needs and funding their capital expenditure needs. They tend to come and go with us. The typical client will have a borrowing exposure - the amount they owe us - that fluctuates over the years. Take a client like Aurora, TasNetworks, Hydro or the MAIB, there are fixed points in the year at which they have to make major payments. So all of them will make tax equivalent payments through the year and they will have a major dividend payment point at one point during the year.

Most of those sorts of clients have fairly even cash inflows from their revenues through the year which means that at the times they have to make the big payments, they have needs for cash. They all minimise their borrowings through the year so when they are cash-strong, they will run their borrowings with us down a bit and then, as they come up to their tax equivalent dividend payments or any other big payments they might have through the year, their borrowings will rise up again.

In addition to that, you have some clients like TasNetworks, TasWater and TasRail are good examples where they have substantial capital expenditure programs so that over time their borrowings are tracking upwards as well. We are just responding to that by meeting their borrowing needs.

Ms FORREST - I guess looking at the likely financial position of Hydro going forward with a range of challenges they are facing, the forward estimates suggest they are going to be paying - I have forgotten what it is - $50 million-odd in dividends.

Mr GUTWEIN - $75 million.

Ms FORREST - $75 million, the Treasurer knew exactly. In 2016-17, is that right, Treasurer?

Mr GUTWEIN - In 2017-18.

Ms FORREST - We are looking at the chances of having that money to actually pay. Are they likely to come back for borrowings at that stage?

Mr GUTWEIN - I can answer that. We are working through a capital restructure with the merchant businesses at the moment and that is close to being finalised. Hydro in the past 12 to 15 months, I think it is, picked up the transfer of the AETV debt.

Ms FORREST - The big white elephant debt.

Mr GUTWEIN - $205 million that they have had to pick up. We are looking at all of that in the context of the capital restructure review at the moment.

Ms FORREST - So it could change as a result of that.

Mr GUTWEIN - I would expect that Hydro's debt position would change as a result of that.

Ms FORREST - Especially if they are going to pay you the money you are looking forward to.

Mr GUTWEIN - I think Hydro has had some challenges. I think it would be fair to say that over a long period of time, to some degree, they had been an extension of the State Revenue Office. They paid and provided for the State very well. They have also had the circumstance change in regards to the carbon tax. That has changed the dynamics of that business and with AETV and the transfer of that debt. The capital restructure will see some changes.

Ms FORREST - Is that review due for completion?

Mr GUTWEIN - Yes.

Ms FORREST - With the uncertainty around the RET at a Federal level, would that have an impact on that too that could flow through to their need for borrowings?

Mr GUTWEIN - It will depend at the end of the day. It is a crystal ball, isn't it?

Ms FORREST - Yes, it is.

Mr GUTWEIN - I would hope that the outcome of the RET review is a positive one for Hydro but we will have to see.

Ms FORREST - You might need to do another review as a result of that.

Mr GUTWEIN - No, I don't think the impact on Hydro would be sufficient for us to need to very quickly change the capital structure of the company. The key is that have been through a challenging period on a number of levels. As we work through this capital restructure then obviously debt levels will change across a number of the businesses.

Ms FORREST - Going back to the question I was asking earlier about how the states manage their business, do you seek any external advice on market structures, et cetera, in looking at where to borrow, what to borrow and managing that portfolio that Tascorp manage?

Mr GUTWEIN - Certainly, I have the benefit of advice from Treasury but Tascorp are best to answer that question.

Mr CHALLEN - Tascorp is fortunate in having very well qualified and very experienced staff so we do not have a lot of need for external advice. We also have a very experienced and very competent board - professionals who have spent their lives in the industry - and their good check on what advice we get from management.

When it comes to individual episodes of borrowing, we work through what we call a dealer panel. These are intermediaries in the market place who have the capacity to sell our bond. We always take their advice when it comes to a bond issue about the right timing and so on. You can see the details of the dealer panel on page 13 of the annual report. We have developed over the years very longstanding and important relationships with the members of the dealer panel. People like Deutsche Bank, Citigroup, Commonwealth Bank, UBS and Westpac. These are people who have been working with us, in Deutsche Bank's case, since day one. They led/managed, not our first, but our second bond issue back in late 1985. We have excellent relationships with all of these people not just in Australia, but all around the world. They are very well placed to give us good quality advice about market circumstances, the right timing, how to place an issue and they have the buyers on the other side of this transaction. They have people out there who want to buy our paper, to lend to us, so that is probably our most important set of external relationships.

If we need to, we will take advice from experts on particular issues. From time to time, for instance, we look at our capital needs and the way we manage risks in the balance sheet and normally we would go out to some external expertise when we do a major reconsideration. That does not happen very often, once every few years.

Ms FORREST - Which sort of companies or people would you use at that time?

Mr CHALLEN - They tend to be little boutique consulting firms. Usually, people who have been in senior positions in the finance markets and have now put their shingle up to offer advice. I do not think we have used one in two or three years, so no particular name comes immediately to mind.

Ms FORREST - The ones on page 13 are the ones you predominantly deal with?

Mr CHALLEN - They are our major relationships. Those people we are working with pretty much on a daily basis.

Mrs HISCUTT - I know that credit ratings are important and the more As and the more pluses you have the better. On page 12 it says we have a double A plus. Is that sufficient for TASCORP to be doing what they are doing or do they need that to be better, or is there a way to improve that or does it matter?

Mr GUTWEIN - It is always better to have as many as you possibly can and as many pluses, but in regard to it being sufficient I will defer to Mr Challen to make a comment in regard to that, other than to say as a new Treasurer having met with credit rating agencies in the last two months, it is extraordinarily important that we manage the credit rating at a state government level and I am sure, from TASCORP's point of view, it is important that across the board we ensure we have the best possible credit rating we can.

Mr CHALLEN - Nothing is more important to TASCORP's business than a good credit rating. That said, Tasmania, AA1, AA plus, is a good credit rating. In the financial markets they talk about being investment grade, which means having a credit rating that is in the As essentially. You could possibly get away with a BBB plus, but essentially if you have a single A or higher, they talk about you being investment grade. That means that most lenders will buy your paper.

There are some lenders who can only buy AA and triple rated paper. Consequently, to drop below an AA rating narrows the spectrum of potential lenders in the market quite dramatically.

Ms FORREST - That affects your cost of lending?

Mr CHALLEN - It affects the cost of lending, but probably also affects your access to borrowing, which is like the first step. If there is not a good range of people out there who will lend to you then it does not matter what the cost is, it is going to be hard to place it.

Mrs HISCUTT - Are you feeling comfortable?

Mr CHALLEN - Yes, but I would not mind a better credit rating, it would be great. AA1- and AA-plus is one notch below AAA in both cases. We are pretty much in the pack with the other Australian states. We are very well regarded by the markets in Europe and Asia.

Mrs HISCUTT - Do you mean Tasmania?

Mr CHALLEN - Tasmania, yes. Our paper is easy to place, it is greatly sought after by the commercial banks around the world, by the central banks in Asia - they are big buyers of our paper - by the superannuation funds in Australia but it is very important that we maintain a good credit rating. The worst thing from a TASCORP point of view would be to see us downgraded.

Mrs HISCUTT - You do not envisage that?

Mr CHALLEN - It is not for me to say.

Mr GUTWEIN - That is the responsibility of the state managing the Budget and it is one of the things that credit rating agencies make perfectly clear when they met with myself and the Premier and Treasury recently. They need to understand that Government is determined to manage its finances.

The biggest challenge we have is that we have been running at significant deficit for a period of time. The Chairman asked the question about cash on deposit - it was one of his opening questions - we have been running down our cash, our position is weaker in that regard, so we have to get our recurrent expenditures into a better position.

Mr GAFFNEY - Over the last 10 years what has been our worst credit rating? Where are we at in comparison to other years?

Mr CHALLEN - I think AA with Standard & Poors. In the last 10 years I do not think we have been below AA1 with Moody's. Moody's first rated us in 1992, I think, and they rated us at AA2 and then along the way Moody's upgraded us twice. For a little while we had an AAA rating with Moody's but it was a bit of an artefact because they changed their methodology and put more weight on the support that comes from national governments and then changed their methodology again and that moved us back to AA1, if my memory is serving me correctly. I do not have any notes.

Mr GUTWEIN - November 2012, we were put on the negative watch, from memory, by Moody's.

Mr CHALLEN - With Standard & Poors, I forget exactly when they first rated us but it would have been around 1993 or 1994 and we were first rated AA-minus and then have been upgraded twice over, funnily enough during my period as Secretary of the Treasury, to the AA and then AA-plus.

Mr GAFFNEY - The question is how dynamic is the movement within states? You said we were in the middle of the pack basically, so I am trying to understand what dynamic moves there are within the states or is it fairly constant in Australia generally?

Mr CHALLEN - There has been quite a bit of movement in ratings in recent years so if you go back, say, pre the mid-2000s - it is sort of around the time of the global financial crisis though that is not the reason for it - before the mid-2000s, state ratings in Australia had been pretty stable for a long period of time and the main changes were Tasmania's improvement, the upgrades here. Nobody else had moved much at all.

Subsequently, government budgets have shown more range of robustness and there have been quite a few ratings changes in the nine years since that middle of the 2000 decade. We have seen Queensland and Western Australia both downgraded from AAA, New South Wales has been put on negative watch a couple of times but they are not downgraded. Victoria has probably been the most stable of everybody through that period. Their finances are probably not as strong as they were a decade ago but they have nevertheless remained pretty strong relative to the other states and South Australia has drifted downwards in the ratings as their budget position has deteriorated. The most important thing for the ratings of Australian states is the budget position and how serious the Government is in convincing the ratings agencies that they are dealing with the problems and that they have a good medium term strategy for managing the budget.

It was really interesting when Moody's first rated us back in 1992. Our budget position then was, in my judgement, considerably worse than you would expect of an AA2-rated entity. But Moody's believed the government strategy of the day and that is why they rate it as AA2. Because Tasmania, through those successive governments, particularly through the 1990s and in the early 2000s, kept on delivering all the time, the rating agencies backed us.

Mrs HISCUTT - With the strategic direction, it says, 'The principal purpose of TASCORP is to develop and implement borrowings and investment programs for the benefit of the state'. Your client list is purely government-type entities. Have you thought about stepping outside that?

Mr CHALLEN - We thought about it. Then we become a bank and we do not want to be a bank. The Tasmanian Government has had a couple of flirtations with being the owner of a bank and they were pretty unhappy. TASCORP is a little organisation; it only has 15 or 16 people with a huge $5 billion balance sheet. We are very focused on our core business and sticking to our knitting. We are very good at getting money for clients that need funding. That is what we do, day in and day out. We want to do it as well as we possibly can to give the best benefit to our clients and, ultimately, to the Treasurer and the Tasmanian community. We do not have any aspirations to go outside our current role.

Mr GUTWEIN - To be fair, there has been no consideration, either, at all.

Laughter.

CHAIR - You are risk-averse, Treasurer.

Mr CHALLEN - It is a good thing in a treasurer to be risk-averse.

Mrs HISCUTT - Do you do overnight investments - put the money somewhere for an overnight gain?

Mr CHALLEN - Yes, we do.

Mrs HISCUTT - Do you look at the checks and balances so the money is not lost - it is safe somewhere?

Mr CHALLEN - Yes. We are very conservative and also risk-averse, like the Treasurer. We do not ever want to suffer a loss of capital. We have very stringent policies about the credit rating of who we lend to, and who we deposit with, whether or not it is overnight. We also buy longer-term assets than that. We invest in other central borrowing authorities' bonds. Often we do that to manage the risk that is associated with a mismatch in the timing with we are issuing bonds and when a client needs funding. You cannot issue bonds every day of the week when you feel like it. You have to issue them in big lumps and there are windows in the marketplace when you can do this. Earlier this year we issued $500 million of a 2024 bond but most of that has been for funding TasNetworks' needs. Because they did not need it at the time we had to issue, we have invested that in the bonds of other states. That is very high credit-worthiness paper. We also -

Mrs HISCUTT - Of course, you make interest.

Mr CHALLEN - No, we lose money. It is a small amount, but we do lose money when we invest in another state's paper.

Mr ROCHESTER - If our credit rating were higher, we could make a profit.

Mr CHALLEN - Indeed, we could make a profit. If you want to make money, you have to invest in assets of lower credit-worthiness than yourself. We do that a bit but we are very careful about it and we have stringent policies about the credit-worthiness of who we will deposit with.

Ms FORREST - The overnight borrowing to the state to balance the books at the end of the year was $920 million this last year?

Mr GUTWEIN - I thought it was $970 million.

Mr CHALLEN - I think the ballpark is in the $900 million. It is $920 million.

Ms FORREST - Is there any expectation on what it is likely to be at the end of this year, Treasurer?

Mr GUTWEIN - Normally in the Budget I think total borrowings for the year just gone were expected to be about $1.1 billion on the balance sheet. It decreases in the Budget to I think it is $930 million over the course of this year. Ultimately, it will be a matter for 30 June where we end up.

Ms FORREST - What was the cost to the $920 million overnight borrowing?

Mr CHALLEN - We charged them a very small fee - a few thousand dollars for the trouble. It cost us nothing because we did not have to fund it. It is essentially a paper transaction.

Ms FORREST - You charge a small fee but not interest as such, is that what you are saying?

Just one other question and it follows on from what Leonie was asking before. You have got borrowings of $5.6 billion and there is $536 million on deposit lent by the general Government lending, and assets of any moneys linked to the GBEs of $3 billion thereabouts and $3.17 billion invested. I am interested to know why you borrow so much when you basically are investing half of it rather than borrowing what you need. You have got a very attractive-looking balance sheet. I am sure lots of people would like to have one looking like it, including the state, but we haven't.

Mr CHALLEN - It is all about timing. It is about making sure that we have the funds to fund our clients when the clients need it.

Ms FORREST - Do you have an idea of what might be coming down the line in that regard?

Mr CHALLEN - We do and essentially that is why we do it. It is because we have to plan for our client needs over a period of three to five years that we have to be positioned for that. As I was saying in answer to the earlier question, the bond market is not a market in which you can just go in any day you feel like it. It is not like going to a commercial bank and borrowing on overdraft. There are windows in the market and you have to be very careful with your timing to make sure that you get cost-effective borrowing. That means that you have really got to plan your issuance strategy over quite a long period of time and make sure that you have got ample funds available to fund client needs. The worst thing that could possibly happen is that the client came to us and said, 'That $200 million that I need in December that I told you about a year ago, I have got to have it'. And we say, 'Well, sorry we have not got it'. We cannot allow that to happen. We have to make sure that we are comfortably liquid enough to fund it.

We also hold excess liquidity to make sure that we have got ample funds to meet our own refinancing task when it comes up. We have got a big bond issue, somewhere between $500 million and $1 billion coming up roughly every 15 to 18 months. We have to accumulate liquidity ahead of those bond issues coming up to make sure that on the day they mature, we have got $1 billion.

Ms FORREST - You have $3 billion invested.

Mr CHALLEN - That is right.

Ms FORREST - There is only a buffer there.

Mr CHALLEN - There is a buffer but it is a prudent buffer. In fact, if you look at the comments that Moody's and Standard and Poors have made in their ratings reports they put quite a lot of store in the liquidity that TASCORP holds in coming up with the state's rating. The one thing that they want to be absolutely confident about is that we have got ample capacity to meet our obligations as and when they fall due.

There is a combination of two things going on here. One is making sure that we never have to say sorry to a client because we cannot fund them. The other thing is making absolutely certain that we have got the cash available on the day that we have to pay back a maturing bond. There is quite a task in doing that. Heath's team behind me would spend a very large proportion of their time just managing those two issues. It is probably the most challenging part of the role.

CHAIR - If there is no more, Treasurer, thank you very much.

Mr GUTWEIN - Thank you. It has been pleasure.

The committee adjourned at 5 p.m.