



PARLIAMENT OF TASMANIA

TRANSCRIPT

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Tasmanian Public Finance Corporation

Tuesday 3 December 2024

MEMBERS

Hon Ruth Forrest MLC (Chair);
Hon Dean Harriss MLC;
Hon Sarah Lovell MLC;
Hon Cassy O'Connor MLC; and
Hon Bec Thomas MLC

WITNESSES IN ATTENDANCE

Hon. Guy Barnett MP, Deputy Premier, Treasurer, Attorney-General, Minister for Justice

Health Baker, Chief Executive Officer

Tony Ferrall, Chair

The committee met at 9 a.m.

CHAIR (Ms Forrest) - Thank you and welcome, minister and your team, for the government business scrutiny of TASCORP. We have from 9 a.m. to 11 a.m. I will invite you to make an opening comment and ask you to introduce the members of your team at the table. We have your annual report, but the questions are related to the annual report and the performance of TASCORP.

Mr BARNETT - Thanks very much, Chair. Thanks for the opportunity to be here today for the scrutiny. It is appreciated and a very important part of our democratic process. I'd like to welcome to the table the chair, Tony Ferrall, who's very well accustomed to being here at this table and I appreciate his leadership and support to TASCORP and, likewise, Heath Baker, chief executive officer. I look forward to answering any questions and queries.

In terms of opening remarks, I just wanted to indicate that TASCORP's purpose is to develop, implement and manage borrowing and investment programs for the benefit of the people of Tasmania. The company had a strong performance in the 2024 financial year and demonstrated its value to the state in being able to meet the diverse financial needs of both the government and its other clients in the face of high demand and financial market volatility.

TASCORP not only met but exceeded the majority of its financial and non-financial targets in the year, which is a testament to its high-quality credit, prudent management of assets and liabilities and the dedication of a small team of professionals with an extensive understanding of client needs and priorities. TASCORP has continually provided sound funding and financial risk management services to the Tasmanian government and its entities.

TASCORP undertook its largest issuance of bonds into the capital markets in the 2023-24 financial year and, while market volatility and periods of market dislocation impacted core operations over the reporting period, the company successfully issued \$2833 million of bonds and issued \$500 million in floating rate notes in 2023-24. The company also wrote \$2933 million in new and refinanced loans to support client borrowing requirements.

TASCORP's financial outcomes for the year were positive, reflecting a prudent risk-management approach to maintaining high-credit quality and a low-risk balance sheet. Net profit for 2023-24 before tax was \$40.1 million and this was \$11.8 million above budget.

Of this profit, TASCORP's Treasury activity contributed \$27 million and the Mersey Community Hospital Fund contributed \$13.1 million. The outperformance to budget of the Treasury activity was due to savings from efficient bond issuance strategies, liquidity portfolio management and lower-than-forecast operating expenses. TASCORP's return of \$118.1 million in tax and dividends to the state, including a substantial dividend of \$96.1 million from the Mersey Community Hospital Fund reflects the positive financial impact and broad-reaching support provided by TASCORP. TASCORP has consistently exceeded its profit targets, and its activities provide consistent positive returns to government.

Looking forward, demand for TASCORP bonds remains strong, and the company is preparing to undertake significant expansion of its borrowing and lending program over the period to meet demand while forecasting to remain within its existing capital. I thank the committee and look forward to further questions.

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CHAIR - Does the chair want to make any comments?

Mr FERRALL - No, I'm fine.

Mr BARNETT - The chair is happy to answer questions. Thank you, chair.

CHAIR - I might pick up on a couple of things that you said in your opening statement, minister. I know the commentary on page 9 of the annual report states TASCORP's financial outcomes for the year were positive, as you said, reflecting a prudent risk-management approach of maintaining high-credit quality and a low-risk balance sheet, which is what you said.

To manage credit risk, TASCORP invests in investment-grade counterparties at or above the triple-B credit rating. Does TASCORP's reliance on investment-grade counterparties impact your ability to manage credit risk at all and, if so, how?

Mr BARNETT - Thank you for the question. If the Chair is happy to respond to that.

Mr FERRALL - Could you add a little more to your question so I don't expand beyond what you're actually trying to ask?

CHAIR - The positive outcome has been a result of maintaining high-credit quality and low-risk balance sheet. The comment goes on to talk about the reliance on investment grade counterparties. I'm asking you to explain that more and whether that impacts on your ability to manage the credit risk in the way you do?

Mr FERRALL - TASCORP takes a relatively low-risk approach in relation to its investments. TASCORP invests and borrows, and we have a substantial investment portfolio. Part of that or, in part, we have that to assist in managing liquidity, but we also have investments associated with our clients on the other side who want investments.

When TASCORP invests, we ensure we invest with high-quality counterparties, so we don't take undue risk to chase return. Effectively, what we're saying is, we manage and monitor those counterparties, and if the risk of those counterparties potentially changes, then we would no longer deal with those parties.

CHAIR - You monitor their risk as well, obviously, the counterparty's risk?

Mr FERRALL - Yes, we monitor their quality.

Mr BAKER - I'll just add, in terms of the composition of our portfolio, if you look at our Treasury activities, 99 per cent of our investments are in AA minus or above investments. We do have some lower investment-grade investment in our Mersey Community Hospital fund portfolio, and that's roughly 22 per cent in the BBB to BBB+ range, and the rest is all in A and above. The Mersey fund is only a smaller portfolio now - it's only \$220-\$230 million, whereas our larger Treasury portfolio is \$3-\$4 billion worth of market investments. Of that, 99 per cent is in AA-minus or above investments. The short answer is that there is no impact -

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CHAIR - We'll come back to the Mersey Community fund a bit more. Are they considered a higher risk, then - the Mersey fund, and thus a higher interest rate? It's always been my fascination as to how this - well, it's not - going to last 10 years in full-term dividends.

Mr FERRALL - The answer is no, we don't take high-risk investments. Even in the Mersey Fund, although some of the fund is invested in BBB or BBB+, we are not taking high-risk in relation to that fund, or any of the investments.

CHAIR - I might come back to the Mersey fund.

Ms O'CONNOR - In terms TASCORP's investments, more and more people are expecting government, when it holds money in trust for them, to make sure that money is being applied ethically or towards sustainable investments. Does TASCORP invest in fossil fuel industries, for example, or weapons manufacturers?

Mr FERRALL - TASCORP doesn't directly, but there may be some parties that we deal with who may.

Ms O'CONNOR - How does TASCORP, or does TASCORP, in any way, test where it's investing to make sure that Tasmanian money is not going towards fossil fuel industries or unethical investments? Is there any metric for testing that or any plan to get better at it?

Mr FERRALL - In terms of investments, we do look at the ESG of counterparties.

Ms O'CONNOR - The what, sorry?

Mr FERRALL - The environmental, social and governance of the counterparties, but we don't specifically identify whether those parties are investing in, as you say, their investments, which may be considered by some components of the community to be undesirable or unethical. By way of example, we would have significant investments with Australian banks, we have significant investments with other central borrowing authorities. We don't trace their investments and, if you can imagine, with significant Australian banks that is very difficult to do. Even with other central borrowing authorities where we might be holding their bonds, there may be investments they have which might have parties they're dealing with who might fall into the categories you have advised.

Ms O'CONNOR - A number of public entities, universities and the like are explicitly divesting from unethical or harmful industries. Is TASCORP thinking of making any moves to apply that kind of ethics and sustainability test at all?

Mr FERRALL - We are not specifically looking at divesting any investments at the moment in respect of that. Quite obviously we monitor what may be occurring with our counterparties, and if there was a situation developing where there was a particularly unethical counterparty that was starting to appear, or starting to appear unethical, then we would look at divestment.

It is quite difficult, because you have to form value judgments around what you might consider unethical. There is a grey part, as opposed to just a black and a white part, when you are dealing with those investments.

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Ms O'CONNOR - With respect, that's part of the reason the planet's cooking, is that public finance corporations are making value judgments on their investments and going for the higher-value investment, even though that might be part of the problem. I will just leave that as a comment.

CHAIR - Can I ask what work TASCORP undertakes to determine how much you'll need to borrow to meet the expected borrowings by Treasury and GBEs, noting there's been significant additional bond issuance in the last financial year? The reason I ask that particularly is that, according to the Auditor-General's report released last week, we know that governments consistently underspend their budgeted amounts for infrastructure in particular, so I'm just asking how TASCORP makes those decisions about how much you're likely to need.

Mr FERRALL - We meet with all of the GBEs and state-owned companies that would be looking to borrow and/or invest with TASCORP on a regular basis. We work with Treasury in terms of Treasury developing the budget and developing the requirements for borrowing for the general government sector. We look at all of the forward budgets and plans of the GBEs and State-owned Companies (SOCs) and develop, effectively, an estimate of their borrowing based on their advice to us and based on Treasury's advice in relation to the budget.

We then put that together, effectively, as an estimated program going forward of borrowing. We also have a substantial refinancing requirement which also forms part of our forward borrowing program, so we collectively put all that together. As a central borrowing authority we need to, and do, communicate with the market regarding our estimated calls on the market going forward, and we modify that or advise potential changes as things change as we go within the year or towards the end of the year.

CHAIR - That said, what forecasting regarding future borrowing requirements are actually done? Is that it? That's what you do? Is that the forecasting you just referred to, Tony?

Mr FERRALL - No, we do a lot of forecasting, in a sense, rather than just the borrowing requirement. Obviously, we've got the refinancing requirement. As our bonds mature, we need to refinance. We look to refinance our bonds in advance so we're not effectively taking risks of there being particular market disruption on a particular day. We will tend to refinance in advance. With Treasury, particularly, given now the general government is our bigger client compared to historically, we work very closely with Treasury in relation to its financing needs. Treasury has an internal borrowing and asset management committee which Heath attends regularly to get updates which might occur due to changes in the budget or changes in the timing of the expenditures.

You need to recognise on the expenditure side, it's quite difficult for Treasury to project exactly what's going to be required in a particular time, because agencies need funding at different points in time and they have very lumpy capital programs which can also sort of throw the timing out. We work pretty closely with Treasury to make sure the cash is managed carefully, that we don't borrow too far in advance, effectively, when funds aren't needed and the investment on the other side is made again at appropriate terms in case some of that cash might be needed.

Ms LOVELL - Thank you, Chair and apologies for my lateness this morning. It was the rain. Back to what you've just said about the difficulty with predicting, given the deteriorating debt outlook across the government sector and the state sector in the coming year, do you have

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any anticipation of how many or how much debt you're anticipating to issue across the forward Estimates and across the coming year?

Mr FERRALL - We do for the coming year. Heath, have you got the -

Mr BAKER - For the current financial year, we're looking to issue \$3.3 billion. This financial year, based on current forecasts, it's 3.3 again next year. Then, it comes down to \$2.5 billion each year thereafter.

Ms LOVELL - And does that include existing debt that's rolled over?

Mr BAKER - That's new and refinanced borrowings.

Ms LOVELL - Thank you, great.

Mr BAKER - That's total call on the market.

CHAIR - The \$2.9 billion you referred to has to be refinanced; that's in the next 12 months as I understand it?

Mr BAKER - We run a short-term borrowing program and a longer-term borrowing program. Our next longer bond maturity is February 2026 which is about \$1.3 billion that we need to refinance. We also run a short-term issuance program which is called commercial paper, which is for terms out to one year to provide liquidity, short term liquidity, in the event that we have an unexpected call. That program varies and would average about \$2 billion on issuance of short-term paper.

CHAIR - With the volatility we're seeing and the uncertainty there, that obviously takes a bit of thinking ahead as to refinancing that larger amount. How do you manage that?

Mr FERRALL - Yes, well, that's the point I was making that we don't wait until the day of maturity to look to refinancing. You could have a significant market, or market disruption, and it could create significant problems. We effectively refinance in advance and then reinvest those funds so we know we're in a position to ensure when that particular bond matures we've already got borrowings on the other side.

Ms LOVELL - Chair, can I just follow up on that?

CHAIR - Yes.

Ms LOVELL - Given the global economic outlook, is it likely that the refinancing will be at higher interest rates?

Mr FERRALL - I wouldn't like to predict interest rates into the future. The last five years have probably been indicative of why you wouldn't predict interest rates into the future. There have been situations with say, Japan, which had negative interest rates for 20 years. I don't think I could comment on whether a rate would be higher or lower into the future.

Ms LOVELL - Okay.

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CHAIR - What analysis have you done regarding and I'm not asking you to predict, but what analysis have you done regarding what an increase would do and what that would mean for TASCORP? It is volatile and no-one really knows, but what analysis do you do on those two scenarios and the credit rating agency's views on things?

Mr FERRALL - We have a comprehensive approach to risk management within TASCORP where we monitor what would occur with changes in yield curve to our position. We look at how much we would potentially have at risk for changes in the yield curve going forward. We monitor and manage that on a monthly basis. There is also a committee within TASCORP. It is internal committees which actively monitor those risks.

Mr BAKER - A core part of our business is monitoring and looking at what interest rates do, what funding markets do, what access we have to market. It's not a set-and-forget exercise, it's a core part of our operations. We have an internal asset and liability management committee that meets once a month to look at what the current market conditions are, what our issuance requirements are, what our run rate is, what our clients are telling us and what level of risk that we are running within the business. It is actively managed, but in terms of taking an outright view on where interest rates go, that doesn't form part of our core business. We're here to raise money in the debt capital markets and onward to our clients.

Mr FERRALL - We don't speculate on interest rate movements.

CHAIR - I'm not asking you to speculate; I'm asking if you keep an eye on it as a regular thing.

Mr FERRALL - We monitor and manage to ensure we're not taking any undue risk if there are interest rate movements. We don't speculate on interest rate movements. You could speculate on and take forward positions in respect of whether interest rates go up or down. Potentially, you could potentially lose or make a lot of money, which we don't do.

CHAIR - That's not the game you're in.

Mr FERRALL - No, absolutely not.

CHAIR - Do you have a clear understanding of what an interest rate rise or an interest rate fall would mean for the business?

Mr FERRALL - Yes.

Mr BAKER - We put strategies in place with our clients to ensure they mitigate that risk, so you don't have a large exposure at any one time to refinance and new borrowings. The idea is to smooth their interest rate and ensure the volatility of their interest expense is minimised. Having an even spread of maturities over a longer period of time ensures you have a more consistent interest expense and not exposed to ad hoc changes in outright interest rate.

CHAIR - Having said a while back that the state is now the biggest customer, we saw Moody's issue advice recently that wasn't a downward revision, but indicated you better do something or we might. Should we not do enough in the state, what impact would a downward revision on the state's credit rating have on TASCORP?

Mr FERRALL - That's not an easy question to address. I'm not being cute or difficult about this. The rate or the interest rate that the state pays is effectively controlled or influenced by a number of factors. A simple movement in the credit rating would not necessarily lead to an immediate or even a potential long-term change in the margin we might pay. Those things are influenced by a range of factors. Our investors are significant domestic banks and overseas investors; they take differing positions in relation to whether a particular credit, a semi-government such as us, is suitable for their investment and their book. That can drive changes in demand which can change the margin that we might pay compared to a higher-rated or a lower-rated entity.

The other point I would make in respect of the credit rating is that the credit rating of Tasmania is very high in an international context. We are not a poorly rated state and shouldn't be considered as a poorly rated state. If you look at the likely differential between, say, if the state was one rating down from where it is now, so, it was sitting at AA, not AA+ as an example, it's not automatic that we would be paying a significant difference in our margin on our debt.

That said, it is a risk and all other things being equal, which they never will be, but all other things being equal, a lower-rated credit should pay a higher margin than a higher-rated credit. But markets aren't that simple. I think that one of the rating downgrades that the state had some time ago, our margins actually closed, and so, we were paying less at the time than we were prior to the rating downgrade.

That's not to say the ratings aren't important or influential, but the point is that there are a whole range of other things which impact on it. One of the most significant things in Australia for the semi-government issue, such as TASCORP, is effectively the relatively strong position of the Australian Government. For an international investor, the domestic Australian semi-government issuers are seen as somewhat homogeneous, even though we might have differential credit ratings.

CHAIR - I appreciate you are walking finely along the middle of the road there watching out for the truck. But in any event, with that said, provide for the committee with what would be perhaps the worst-case scenario if the rates did go up and what impact that would have on TASCORP? If there was no change or it actually reduced if a credit downgrade occurred, what would be that situation? The best-case scenario, if you like?

Mr FERRALL - I don't think I could give a clear answer on a best-case or a worst-case scenario because if you took simplistically that currently we might be issuing a 10-year bond, say 4½ per cent, and you say, what would be the worst- or best-case change, and what would the impact be? We have a relatively long duration existing portfolio. So our portfolio is roughly about seven years. So, there wouldn't be an immediate impact on all of our debt. There'd be an impact on our new financing or refinancing potentially.

If you said what's the best- or worst-case scenario, you'd have to look at the best- or worst-case potential shift in the yield curve, which again is pretty hypothetical.

Now, when we're looking at our risk management, we do look at shifts in yield curves, which are based on history, essentially. I think the GFC probably produced the most significant yield curve shifts, which for a long time we had those shifts built into our sort of risk-management approach in terms of, you know, might call potential, or best- or worst-case scenarios.

As time has gone on, we don't have as much influence of that particular, you know, shift in historic rates in our current risk-management approach.

I'm not trying to be evasive, I'm basically saying it's not something you can easily calculate and say what is the best and worst case. You could come up with a set of numbers that said, 'Well, if there was a 200-point shift in the yield curve up or down, what would that do to our current portfolio in terms of valuation and then assuming that it was all refinanced at those particular future rates against the yield curve?'. We could calculate that, but I'm not sure that would be satisfactory in terms of it being a best- or worst-case scenario. It's just a 200-point shift. What you're asking me is what the best- or worst-case scenario would be. To cut right to the chase, I'm telling you I can't tell you what the best- or worst-case scenario could be.

CHAIR - You don't know what the impact on TASCORP would be?

Mr FERRALL - I can give you a set of numbers against a set of parameters of a shift and we could calculate that on whatever shift you might like, but for me to then say that's the best or worst case, it would not be possible.

Ms O'CONNOR - Who does TASCORP borrow from overseas?

Mr FERRALL - We issue bonds which overseas investors invest in. At the moment, I'm not sure if I can say who they are, but it varies. Our bonds are tradable. It's not like we are borrowing from a particular investor and that sticks there. An investor buys our bonds and investors can sell our bonds. They're market tradable instruments. We would not necessarily know who might be holding them at all times.

Ms O'CONNOR - Do we have any money in offshore accounts? I'd like to take you to page 55 of the annual report. This is about the client advances. Could you talk us through this? There are significant sums of money in client advances, particularly to Treasury and Finance. Could you explain - I'm a bright 11-year-old - what the \$4 billion figure in 2024 is like?

Mr FERRALL - In simplistic terms, that is a measure of the amount of borrowing that Treasury has taken on behalf of the Crown or the government as at 30 June 2024.

Ms O'CONNOR - Treasury's borrowings in the past year have been a bit over \$4 billion?

Mr FERRALL - No, because in 2023 they were \$2.5 billion.

Ms O'CONNOR - Is this cumulative?

Mr FERRALL - Using those numbers, they've moved by a billion and a half over the year.

Ms O'CONNOR - Okay. For the Homes Tasmania borrowings, we had documents that were released under RTI that suggested that, as of earlier this year, Homes Tasmania has a debt facility of about \$764 million with TASCORP. Is this accurate?

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Mr FERRALL - No. Homes Tasmania has a limit with TASCORP of \$336 million. As at 28 November it had \$331.2 million.

Ms O'CONNOR - In order to fulfil its capital objectives, Homes Tasmania will need to expand their debt facility. Isn't that the case? We've had them at the table in other committees and the projection is that the borrowings will be significantly higher than what's detailed here.

Mr FERRALL - Homes Tasmania has a significant ambition of a forward borrowing program to support the construction of the 10,000 homes. That figure I've given you was at 28 November, but they do have a forward borrowing program which is more significant.

Ms O'CONNOR - I am really clear in my mind. So, when you said the limit on Homes Tasmania's borrowing that has been set to date, is it \$336 million?

Mr FERRALL - Again, that was as of 28 November. Yes.

Ms O'CONNOR - As at 28 November, but there's an expectation in TASCORP that the borrowings will be extended for Homes Tasmania in forward years.

Mr FERRALL - Yes, going forward, yes.

Ms O'CONNOR - Okay. Thank you. So, also on this list -

Mr FERRALL: I mean, there is - there is currently additional provision for this year as well of 140. So, I'll explain the limits which might help you. So, TASCORP sets limits for, you know, its clients, and that's - in large part, that's driven now by the approved level of borrowing that is guaranteed by the Treasurer and, so, that becomes the limit. If a client - and I'll use Homes Tasmania as the client - is looking to borrow further, beyond that limit, we go through an approach of looking at Homes Tasmania and whether Homes Tasmania can support the additional borrowing.

Given that Homes Tasmania is principally solely supported in terms of its borrowing by support from the general government sector, we look at whether the forward budget supports the level of additional borrowing and then, in a sort of mechanical sense, the Treasurer is brought into it, into the situation, with Homes Tasmania going to the Treasurer and seeking additional borrowing capacity for Homes Tasmania, but also, on the TASCORP side, we would look for an increase in the guarantee under section 15 of the TASCORP act to ensure that we could be satisfied that we're not organisationally at undue risk in terms of Homes Tas meeting -

Ms O'CONNOR - Thank you. Can I ask, on this list is a line item that says 'other participating authorities'. I don't see Stadiums Tasmania or Macquarie Point Development Corporation listed as TASCORP clients. Has there been an approach from Stadiums Tasmania to TASCORP to borrow for the stadium?

Mr FERRALL - No approach.

Mr BAKER - No approach or a borrowing request. We've had an introductory meeting with them when they were established but, yes, at this stage they have not come forward with any requirements for borrowings.

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Ms O'CONNOR - Is it the expectation that Stadiums Tasmania would need to approach TASCORP in order to fund the stadium should it be approved?

Mr FERRALL - Look, I don't think TASCORP has any expectation on that front at this point. I really think it's a matter for government to work through in terms of, you know, how it is going to be dealing ultimately with the cost of the stadium.

Ms O'CONNOR - And is, can I just ask -

CHAIR - It's not just that stadium, it's also UTAS Stadium and potentially Dial Park if they take that over.

Ms O'CONNOR - Can I just ask, has Macquarie Point Development Corporation approached TASCORP for funding support? Are they potentially in the 'other participating authorities'?

Mr BAKER - No borrowings with Macquarie Point at this stage, nor have we got any formal requests for borrowings.

Ms O'CONNOR - Okay. Thanks.

CHAIR - Sarah?

Ms LOVELL - Thank you, Chair. I had some questions about the TT-Line loan facility agreement, if now is the place to ask those. Can you confirm whether TT-Line breached its master loan facility agreement with TASCORP by exceeding the interest coverage ratio earlier this year?

Mr FERRALL - Yes, it did.

Ms LOVELL - And can you -

Mr FERRALL - And that's reported in the TT-Line financial statements as well, that it breached the interest cover ratio limit and advised TASCORP accordingly in August 2024.

Ms LOVELL - Can you confirm for the committee how much the agreement was breached by and what the interest coverage ratio limit is in the agreement?

Mr FERRALL - The interest cover ratio is a ratio. So, Heath, have you got the number of -

Mr BAKER - Yes. So, they have a minimum requirement of an interest coverage ratio of one times. So, essentially their earnings from continuous operations before interest, tax, depreciation and other abnormal items divided by the interest, it's got to be greater than one. So, these limits were set more recently when we implemented the ship project.

Ms LOVELL - What was the breach? How much did they not meet that by?

Mr BAKER - I'll probably have to take that on notice. I do have it, but obviously it did fall below one time. As part of TT-Line completing their end of financial year process, the

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breaches included impairment testing for the current work in progress, which meant that their expected short-term profitability had been reduced. It was forecast to dip below that required one for a short period of time and, when the new vessels come into operations, they go back above that minimum requirement.

Ms LOVELL - Has that been renegotiated or is that minimum requirement still in place now?

Mr FERRALL - I might again just briefly explain how our covenants work. We have a master loan facility agreement with each party that we lend to, apart from the general government sector, which has in the agreement a number of things that we believe that each particular entity might need to comply with and provide us with notice if they don't. It's part of our, I guess, risk-management approach in respect of lending to the individual clients. We generally use what we call covenants, which include an interest coverage ratio and they are calculated slightly differently in relation to different entities because they're not unique and it's appropriate to calculate them differently.

CHAIR - They are unique.

Mr FERRALL - Sorry, they are unique. They're not homogeneous. They're not all identical. We have a material adverse change covenant, we have a financial leverage ratio covenant, we have third party indebtedness so that they can't accumulate indebtedness to other parties and we also, in some cases, have minimum requirements of cash flows from operations. All of these things in terms of their covenants are things which the entity is required to report to us if they have any material change to, and it aids in our monitoring of the entity and management of the risk.

In relation to TT-Line, and Heath will correct me, but my understanding is that in terms of monitoring the interest coverage ratio that their May position was within the requirements and there was nothing they needed to report to us, but, because of some changes that occurred during the month of June, they went outside of that interest coverage ratio test. They didn't pick that up, as I understand it, until when they were doing their accounts in August in terms of that the ratio had been exceeded and they reported that to TASCORP.

Our internal credit committee reviewed that particular event. That event was reported to the board later in August and we also considered it.

CHAIR - Reported to the TASCORP board?

Mr FERRALL - Yes. It is an internal requirement of TASCORP in respect of any of those changes for them to report it to the board. The board considered it, reviewed it and effectively we were comfortable that, in relation to the particular event, it wasn't something that we needed to be highly concerned about. It wasn't something that we would consider as a default or as a matter of acceleration of trying to recoup the debt et cetera.

Again, by way of broad explanation, it's not unusual for some of our entities to breach some of these covenants at different points in time. When that does occur, we look at it pretty carefully. In relation to TT-Line, the position of the board is that what we have basically said we will take no action in relation to that particular breach, but we are looking to do a full review of TT-Line once we have all of the relevant information from TT-Line in relation to what is

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quite obviously a changed situation for TT-Line going forward. When we receive that, we will consider what the implications might be for TASCORP going forward and what that might mean in respect of how TT-Line is able to repay whatever debt it may have going forward in respect of changed circumstances.

Ms O'CONNOR - I'll just check the timing on that.

Ms LOVELL - For this one as well. Just before that - sorry, on this one, there was no penalty applied to TT-Line for that?

Mr FERRALL - No.

Ms LOVELL - Do you have a time line for when you expect to get the information and the review to take place?

Mr FERRALL - We're expecting it imminently, but again in fairness to TT-Line, there are a range of unknowns that it is working through which will go to how it will put together its future projections. We're not unreasonable in terms of we can't expect them to have produced a revised business case and forward projections when they're still working through some of the significant matters that they're dealing with.

CHAIR - Can I ask then, have there been any other breaches of covenants in the last financial year, in any of those covenants by any of the businesses that have borrowings with you, knowing that some of them are pretty big numbers?

Mr FERRALL - We'll just check. So there was one from Aurora in August 2023 and again, that was related to a decrease in its net assets at the time and that was in August 2023.

CHAIR - Which covenant did they breach?

Mr FERRALL - It was one we call a material adverse change, which you know it's effectively like a change in their balance sheet in essence. That was reviewed by the board in August 2023 and again we decided to take no further action at the time because of the nature of it. It related to changes in market values of derivatives at the time. We had TasRail which had an interest cover ratio test which was in July, sorry, was in May 2024 and again, the breach didn't give rise to any notice of acceleration and again the nature of the breach was such that we took no action.

CHAIR - TasRail had no borrowings in 2023 but now have 11 million according to your page 55, yes.

Mr BAKER - Yes, so this breach happened in May 2024 when they moved - obviously, when they had no borrowings the covenants aren't an issue, but once they moved into borrowings, there was an event in May 2024.

CHAIR - Any others?

Mr FERRALL - Metro had an interest cover ratio breach as well and in that example, we resolved to take no action to enforce any right, but I mean, you've got to understand that a breach of these loan covenants can give rise to TASCORP accelerating the loan or effectively

calling the loan in some circumstances, but again, in relation to the breaches, they were not significant that would lead us to do anything like that.

Ms O'CONNOR - You couldn't break a GBE anyway, could you from TASCORP's point of view? It's difficult if you've got a GBE that's got some issues here. You can't really make life more difficult for it.

Mr FERRALL - No, but purely from a TASCORP perspective, if we decided that meeting our obligations, in terms of TASCORP act, could not be or we couldn't satisfy those obligations because of the risk on the other side, then effectively we would then go to the Treasurer and basically look to the state of Tasmania to potentially provide additional support to that entity if it got to that point.

CHAIR - One would hope that entity had already been to the Treasurer. Wouldn't you?

Mr FERRALL - No, but there's a guarantee from the Treasurer which TASCORP holds. So again, hypothetically and theoretically, if an entity, a GBE, or a SOC was unable to pay its debts to TASCORP as and when they fall due for some reason, then TASCORP has rights to effectively go to the treasurer of the day and under the guarantee, which is part of the act, and seek support from the state.

CHAIR - So have we got or can you provide a list of all the guaranteed amounts for these entities that have got borrowings?

Mr FERRALL - It's tabled in parliament, as I understand. We can get you one, but under the act it's tabled, as I understand it.

CHAIR - I don't remember seeing it. Maybe I've missed that one. Yes, but if you can provide it, even though it might be a tabled document.

Mr FERRALL - Well, it's under 15A of the TASCORP act. As they change - I might be incorrect - but my recollection is if they change then the treasurer of the day tables further schedules.

CHAIR - Have you got it there to table now?

Mr FERRALL - We've got the guaranteed amount. Yes, we can -

Mr BAKER - The amount is guaranteed as at 30 September.

Mr FERRALL - 30 September.

CHAIR - So, can you provide that to the committee?

Mr FERRALL - Yes, we will provide that to the committee.

CHAIR - Before the end of the hearing?

Mr FERRALL - Yes.

Ms THOMAS - Page 22 of the annual report talks about purchasing or sourcing goods and services from local suppliers and notes that TASCORP supports Tasmanian businesses where possible. I know that the value of purchases from Tasmanian businesses in the financial year was around 1.5 million. It's made-up 20 per cent of purchases from Tasmanian businesses. Can you just provide a bit more detail on that? What were those goods and services and why is the procurement only 28 per cent Tasmanian businesses?

Mr FERRALL - I'll have to check the particular business.

Mr BAKER - Not that granular, no. Sorry, I'll just check the notes.

Ms THOMAS - That's okay. Don't need to know necessarily the specific businesses, but just the nature of those purchases and why.

Mr FERRALL - Yes, we can certainly do that. I will just have to check and see. I don't believe we have it, certainly not in the notes that we've brought today, but we can get that. I mean, I think the point from a, you know - TASCORP supports local businesses wherever we can. There's a lot of our purchases that just don't relate to things that are supplied locally in terms of some of our, you know, significant organisational costs such as our issuing costs for a bond as an example, you know, is not something that we could go to a local supplier to purchase from. But where we are looking at anything which is within our sort of organisation and the normal sort of purchases that we can do, we look to local where we can.

Mr BAKER - So an example would be our IT support, which is through a local provider. It's probably one of the largest items in that amount. But yes, as Tony says, our treasury management system, the systems that we use in the financial markets are all supplied by global or national suppliers and hence why there's the disproportion between the buy-local percentage of Tasmanian versus what we actually need to operate in the market.

Ms THOMAS - Okay. So, you have an IT officer and head of IT and cyber security within the organisation, but then you also procure additional IT support services and that makes up a large proportion of that 1.5 million. Is that fair to say?

Mr BAKER - Yes.

Mr FERRALL - Yes.

Ms O'CONNOR - Page 10 of the annual report talks about TASCORP operations and makes the point that, similar to the 2022-23 financial year, the majority of new client advances were made to the general government sector, these advances rising by \$1.4 billion to \$4.4 billion. Is that general government sector primarily GBEs -

Mr FERRALL - General government sectors.

Ms O'CONNOR - Treasury?

Mr FERRALL - The Treasurer, yes.

Ms O'CONNOR - Given the lendings to the general government sector are increasing over time, what is the likely projection for 2025-26? I'm not very good at this stuff, but to this

intelligent 11-year-old it looks like lending to the general government sector will have to keep increasing in order to service the debt.

CHAIR - And provide services.

Ms O'CONNOR - Is that correct and are we likely to see a turnaround? This is funding for recurrent spending also, isn't it?

Mr FERRALL - It's funding to support the budget, which includes capital and recurrent, potentially. The level of borrowings is going to continue to increase, which is shown in the government's forward Estimates in the budget papers. That is effectively the step through of the levels that the gross and net borrowings is currently expected to reach. That is going to mean that TASCORP borrows more.

Ms O'CONNOR - That does raise an obvious financial sustainability question for the state, doesn't it?

Mr FERRALL - I think the questions of financial sustainability are questions of policy for the government as opposed to questions for TASCORP.

TASCORP is in a position where we believe we can raise the level of funding that the government needs and is managing going forward. At this point we don't believe there'll be any difficulty in raising that funding from a TASCORP perspective. In terms of questions of state government budget management, they're more appropriately addressed in another forum or with the Treasurer from a policy perspective.

Ms O'CONNOR - When you say policy, you talk about how government might bring down the debt and the necessary level of borrowings to service that debt by making cuts or efficiencies. That's the policy question, isn't it?

Mr FERRALL - No, I'm being broader than that. I'm not implying that the government will or won't make any decisions in relation to cuts or otherwise.

Ms O'CONNOR - I know you can't.

Mr FERRALL - All I'm saying is the state's borrowing is a question of policy for the government.

Ms O'CONNOR - If this grey band area and blue band area keeps growing, is there a point at which there's a conversation between TASCORP, yourself or the board and the Treasurer? You can't keep blowing up a balloon What role does TASCORP play in advising government about how these graphs will look going forward?

Mr FERRALL - From a TASCORP perspective, we're comfortable we can raise the level of debt that the government is projecting it will need to support over the Budget and the forward Estimates. I don't think there's any doubt the Tasmanian budget is going to come under increasing pressure as we go forward. That's demonstrated in the government's current forward Estimates. It's not something the government is shirking from as far as I'm aware, they recognise there is a continuing challenge.

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The government has a fiscal strategy, which is not being met at the moment in total. There will need to be changes going forward in order to meet that fiscal strategy and to ultimately get debt under control. Now, that's not a revelation.

CHAIR - It is also more a matter for government than TASCORP, I'd suggest, is it?

Mr FERRALL - It is more an issue for government than TASCORP. As I said, TASCORP doesn't hold the policy instruments that are necessary for TASCORP to make the changes that might be required. They are a matter for government to make decisions in relation to its taxing, in relation to its expenditure and it's in respect of its capital expenditure.

CHAIR - I might go back to TASCORP.

Ms O'CONNOR - I think that is a legitimate question to ask, because TASCORP plays any sort of advisory role on risk to government.

CHAIR - But that's more to the government.

Ms O'CONNOR - I'm happy for the Treasurer to answer it.

CHAIR - Did you want to make a comment on that, minister?

Mr BARNETT - Yes, I'd be happy to. I am just concurring with the chairman's remarks and indicate that we have a pathway to surplus and the debt is manageable. And that's why we're going through a budget process at the moment. And we're getting feedback, obviously from the community. I'm taking advice from Treasury and others across government as we prepare the next budget, which is due on 29 May; the last one obviously on 12 September.

We are moving reasonably swiftly and have a lot of work to do. I want to acknowledge both the national and global headwinds we do have and say this is not new to just one jurisdiction, as in Tasmania, this is common across Australia. We had a Treasury ministers meeting last Friday and these challenges are there for all of us.

CHAIR - Not in Western Australia, I don't think they're worried too much, but anyway.

Mr BARNETT - Victoria is very concerning and you've seen reports there. But we will continue to be responsible and diligent in the work needed to deliver a budget that will deliver a strong economy and create more jobs and ensure it's responsible over the years ahead.

CHAIR - Going to the Mersey Community Hospital Fund, that was bought for a dollar. Former federal treasurer provided, I can't remember exactly, 500 or 735 or something million.

Mr FERRALL - It was \$730.4 million.

CHAIR - The \$730 million that was quickly shunted across to TASCORP to look after and manage with the expectation of a dividend for the next 10 years.

Now, we can see quite clearly here that in year 10 which is 2027, it will be far short of what the \$103 million dividend for the 2026 year or thereabouts.

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In terms of 2027, the fund not being able to provide that so-called dividend to the state, what's the plan for the government here? Because that's a lot of money that state's going to have to find in addition to all the other money it's going to have to find, to fund health services at the Mersey, particularly.

Mr BARNETT - Yes, well in terms of TASCORP, I'm happy for the chair to speak to exactly where things are at and their investment and arrangements with respect to the funding from the Mersey Community Hospital Fund.

My advice is that the dividend -

CHAIR - The budget papers said that in 2027, there'll be a \$28.3 million dividend, and that's the end of it. Which is far short for the 100, 103, \$102.9 million in the budget, expected between 2026.

Mr BARNETT - Yes. As you've noted, I mean this all started many years ago with the purchase of the hospital. I think it was \$730.4 million was transferred, at that time. The chair, can speak to how that's been managed since then, in terms of ongoing funding for the Mersey Community Hospital that'll be included in the budget.

CHAIR - My question to you was, what does that mean for the state? We just talked about the risks facing the state in managing its financial matters, increasing borrowings. This doesn't include, as I understand it - or maybe it does - increasing borrowings needed to fund health services delivered at the Mersey Hospital.

Mr BARNETT - This will be made clear in the Budget and in the forward Estimates. The Mersey Community Hospital provides important health services for the north-west coast, as I know you are aware.

CHAIR - What is the impact on the financial position of the state of having to pick up the shortfall of \$80 or \$90 million in 2017? That's been coming for a while.

Ms O'CONNOR - What happens after that?

Mr FERRALL - I can speak from history, if I may. The budget expenditure for Mersey is not directly linked to the revenue from Mersey. The expenditure is in the forward Estimates, and continues to grow and be indexed appropriately, which is discrete from the revenue source, which is coming from TASCORP.

Obviously, the original intention of the Commonwealth was that the \$730 million would meet the cost of Mersey going forward. We've had numerous discussions here over the years about that. The sum provided was never going to be sufficient to meet the full cost of the Mersey in perpetuity.

Effectively, the gap between the revenues on the Mersey - which fall away to circa \$30 million in that last year - and the expenditure, is built into the budget already and will continue to be built in. There is an obvious impact on the state against what was originally intended, whatever the expenditure against the Mersey is, compared to the budget. Yes, there's a negative impact on the budget, but it is already built into the budget.

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CHAIR - Minister, does this contribute, then, to some of the additional borrowings that are projected in the forward Estimates in the Budget?

Mr BARNETT - The budget papers set it out reasonably clearly, is my understanding, and we're working through the 2025-26 Budget of 29 May next year. It'll be more particularised in those documents.

CHAIR - Can we expect to see an increase in borrowing in the out years, because 2027 there's some funding, that will come from TASCORP, until the fund's empty. Then 2028-29, 2029-30, they're the ones that are beginning to show up. Can we expect to see additional borrowings needed to fund health services to continue delivering the services that are not fully met by this fund? I absolutely get that.

Mr BARNETT - I'd say two things. We have the funds now, as the chair's outlined, the interest benefit for the state, and then we have the Budget -

CHAIR - Which will disappear as well.

Mr BARNETT - We have the Budget, which would outline the expenditure for the Mersey Community Hospital Health Services, which are very important for the north-west coast. To make it very clear, those services are continuing, and we appreciate those services and the importance of them. It's reflected already in the current Budget. It will be reflected again in next year's Budget. I will not pre-empt next year's Budget - in terms of how that funding is met, that will be made clear on the 29 May 2025.

Ms O'CONNOR - Is the Commonwealth going to chip in, do you think? Again?

CHAIR - I reckon they've done their bit.

Ms O'CONNOR - Has there been an approach made to the Commonwealth about future Mersey Hospital funding?

Mr BARNETT - I'm not aware of any approach to the Commonwealth regarding that funding. I'm aware of other approaches on other matters, and look forward to ongoing engagement accordingly.

Ms O'CONNOR - Is there a debt limit that the state would have? Is there a point at which - and I don't know if this is more a question for Treasury than TASCORP - but TASCORP undertakes the borrowing. Is there a point at which the state, is there a number, or an understanding, that there's a debt limit for the state?

Mr FERRALL - No. There isn't, simplistically, a debt limit. There would be a point where we, as a jurisdiction or as a CBA, would not be able to raise money in the markets, but what that is, again is an unknown. Ultimately, parties who are lending or investing, investors, effectively look at the capacity of the state to provide the return and for them to ultimately recover their full investment. There isn't simplistically a debt limit that we'd say 'X billion' is all the state could ever borrow. However, at some point, as we're seeing in the UK, markets react to behaviours of governments. They react pretty quickly. The UK found that there was a debt limit.

CHAIR - Well, Liz Truss did, anyway.

Ms O'CONNOR - Can I ask a question about Homes Tasmania? I'm interested to learn, when Homes Tasmania seeks to increase its borrowing, how TASCORP works with Homes Tasmania to understand how those borrowing costs might be met by Homes Tasmania - given that, presumably, they have a large capital program, but that'll take some time to come to fruition and earn any income. What's the process of sitting down with an entity like Homes Tasmania, which is a new business, if you like, to work through future sustainability of that entity? Noting that today, a review of Homes Tasmania has just been announced, so there's more scrutiny and upheaval for this entity, how does TASCORP work with Homes Tasmania on those questions?

Mr FERRALL - As a new entity, TASCORP is effectively reliant on the budget forward Estimates, which indicate the level of support that the government is providing Homes Tasmania for debt support or debt servicing.

We have worked with Homes Tasmania in respect of its forward budgets and, again, as a newish entity it is working through a number of challenges in relation to how it's going to manage all of its requirements going forward. From the narrow TASCORP perspective, we're comfortable that we have a guarantee from the Treasurer, and the level of borrowings that Homes Tasmania has, and would be approved potentially in the future, will be supported by the government.

Ms O'CONNOR - The government.

Mr FERRALL - The government. We're comfortable with that scenario, from that narrow perspective.

Ms O'CONNOR - Is there a process, however, of TASCORP working with Homes Tasmania, should they come for extended borrowings, or is the guarantee of the Treasury enough?

Mr FERRALL - The guarantee from the Treasurer is not enough on its own. We work with all of the entities in respect of whether we believe we have concerns, or otherwise, about their capacity to meet their proposed borrowing program, and how they would need to meet it. Ultimately, we would lend to any entity that the government required support for, because we are the central borrowing authority for the state, but we would work with the entities in relation to their capacity. In terms of the Treasurer providing a guarantee - depending on the circumstances, we may provide the Treasurer with advice, from a TASCORP perspective, in relation to the particular entity and what providing the guarantee might entail or mean.

Ms O'CONNOR - The TASCORP act (*Tasmanian Public Finance Corporation Act 1985*) is becoming quite aged. This might be a question for the Treasurer - is there any move potentially to update the act? It was interesting that in your opening remarks, Treasurer, you made the statement that TASCORP is here for the benefit of the people of Tasmania - and I'm sure that's true - but it's nowhere explicit in the legislation, for example, that that's TASCORP's primary purpose. Are there any moves to modernise the act? Is there any need? Or is the act working well?

Mr FERRALL - I think the act works well. We haven't found it to be restrictive or concerning from our point of view. Certainly, if the government is looking at the GBE act, then TASCORP, as a GBE, would pick up any changes that occur in the GBE act. TASCORP's act specifically, there were changes made in respect of the legislative guarantee from the Treasurer. There have been some amendments over time. It hasn't been an act that I think needs substantial amendment, personally, but like all legislation, over time things can change and things need change and improvement. It certainly doesn't [inaudible] any restrictions in terms of us operating in the market. We're not finding that there's any concerns. I think the limitations in terms of our functions and powers are appropriate in that they require us to have due regard to appropriate levels of financial risk. As we go forward, TASCORP could probably seek some assistance in what that might mean or interpret in terms of what are appropriate levels of financial risk. Then there's an overlay of question of financial risk to whom, which we might seek some guidance on as well. The financial risk to the entity might be quite different to the financial risk to the entity we're lending to or to the Treasury of the state of Tasmania.

Ms O'CONNOR - The state of Tasmania.

Mr FERRALL - The GBE act provides us with appropriate guidance in terms of our responsibilities, particularly from a TASCORP perspective in acting in accordance with sound commercial practice, which for an entity like TASCORP is more appropriate, I think, than might be in other circumstances with some of the other entities which might be required to act more as a policy instrument for government. I think the overlay of 'Tasmania first' needs to be thought through in terms of articulating to TASCORP and how that links with the TASCORP act. All of those things are things that don't require the TASCORP act to be blown up or changed, I think they just require appropriate communication and articulation.

Mr BARNETT - I might add to that answer. Thanks very much for the question. I concur with the good results for TASCORP, particularly in the last 12 months. I want to make it very clear in the short couple of months that I've been in the Treasury role there's been no recommendations for reform specifically to the TASCORP legislation. I wanted to make the point as we go through the GBE reform process, which we're seeking feedback from the public and stakeholders by 13 December. As we consider that and then work through the reform process, we had the chairs and CEOs of all the GBEs that the Premier and I hosted some weeks ago at a round table talking about the GBE reform process, seeking their feedback which they've indicated that they will provide by 13 December, which is greatly appreciated. I'm giving you the heads-up that we'll consider that very carefully. It's a very serious process and there may or may not be consequential, potentially minor, legislative amendments to TASCORP.

In terms of the GBE reform process, we're taking it very seriously. I've indicated there was likely to be legislative reform measures made available for the public and for yourselves and others by the first quarter of next year and a range of other reform measures that we will release and announce once we've given that due consideration based on the feedback. I want to make it clear we're backing business, we're growing the economy, it's a Team Tasmania approach, the GBE reform process, and it's very important and we're getting on with the job.

Ms LOVELL - I just wanted to go back to the TT-Line agreement. You said, Mr Ferrall, that you were expecting that work to be done imminently or for the information to come through from TT-Line imminently. So, two questions. First of all, has TASCORP given any

deadline or time line to TT-Line around when you need that work to be undertaken or the review to be done?

Mr FERRALL - I'm not aware of a deadline. So, again, mechanical sense, we have written to TT-Line and Heath has met regularly with TT-Line, so, we've sought the information that we believe we need going forward. TT-Line has advised that they need to work through a number of matters, which again is not unreasonable and, so, we're not putting a fixed deadline on that. When we get the information, it'll be considered by the TASCORP management team in terms of our credit committee will review that information and then there'll be a paper which will come to the board, which will be effectively a TASCORP view of TT-Line's forward projections of revenue and expenditure in the changed operating environment that they're dealing with.

Ms LOVELL - So, without asking you to predict anything, can you tell us what the range of actions might be that could be undertaken once that full review has been completed?

Mr FERRALL - Look, it's difficult to come up with a range of actions that might be taken. I think ultimately it's going to come down to the level of support that TT-Line might need going forward if it has an increased borrowing program and has curtailed revenues. So, I wouldn't like to really go any further than saying there might be a need for increased support which the government is well aware of.

Ms LOVELL - Do you know what the, or can you tell us, what the current borrowing limit is for TT-Line?

Mr FERRALL - Yes, at the moment it's \$990 million with a working capital facility of \$45 million.

Ms LOVELL - So, it's possible that may need to be increased. Is that a possibility?

Mr BAKER - We've received no formal request from TT-Line as yet. So, as the chair mentioned, they're still working through what those longer-term financial impacts are. Just to clarify, we have received some short-term financial forecasts for the next two or three years. But, because these ships are long-life assets, we've asked for the business case to be reproduced with those longer-term financials.

Ms LOVELL - Just going back to the actions, the outcomes, that could occur. For people that - I am a bit like the member for Hobart, this is not my wheelhouse - I suspect there's a lot of people who might be paying attention to this who don't know anything about TASCORP and how it operates. So, what are some of the things that could be an outcome? So, increased borrowing might be an outcome. What other things might be an outcome of the review? What other things can TASCORP do?

Mr FERRALL - So, in circumstances where an entity we are lending to is judged by TASCORP as not being able to support the borrowing. That's an extreme example -

Ms LOVELL - And I'm not suggesting this is what you're expecting. No.

Mr FERRALL - No, and if that was an outcome, we would need to talk to the Treasurer, who is effectively the guarantor for the entity, as you would have in circumstances where you

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were a guarantor for an entity with a view to finding a way forward in terms of ensuring that the entity can meet its obligations to TASCORP. Quite obviously TASCORP doesn't have the capacity to absorb an entity not meeting its obligations, because we have obligations on the other side. So, in those circumstances, an outcome might be greater budget support. The forward projections might indicate or imply that there's a different approach to borrowing that might be required in terms of the time frame.

So, the very original TT-Line business case was actually going to repay their debt over a relatively short period of time, because -

CHAIR - Because the vessels were going to be on the run now.

Mr FERRALL - Well, no, it's because TT-Line - partly, but TT-Line is a very good business and it is a high cash flow business. TT-Line, was able in its base case to demonstrate that it could repay the borrowings over a relatively short period of time. Now, clearly that's changed. That might mean that we look at a different borrowing program or we are looking at changes -

CHAIR - Like, a different repayment schedule? Yes.

Mr FERRALL - Changes, yes, changes in refinancing which might occur. There's a range of things that we'll work through with TT-Line and obviously, the government.

Ms LOVELL - Yes. Thank you.

CHAIR - What information you're waiting for, we don't know the answer to that yet. Answers are being provided to the Public Accounts Committee, for example. Like, we don't know if we've got a lease to lease the vessel. I don't think we've got a cost of the berthing costs in Leith, Scotland. We don't know how much the berth in Devonport's going to actually cost. What does TASCORP and the government need to know before these decisions can be made about any reprofiling of their debt?

Mr FERRALL - Well, ultimately to look at the debt profiling, TASCORP would need to have a good understanding of the significant cash flows in and out going forward. That's what we'd be looking for and TT-Line are working through that at the moment.

CHAIR - We don't have the answer to some of these questions, you said imminent, but is that a realistic expectation, whatever imminent means?

Mr FERRALL - Well, as soon as practicable and sensible from my point of view. We might get a set of projections from TT-Line which still has some gaps, but we might be able to work with that and say well, okay, that gives us enough of an indication going forward. Fundamentally notwithstanding all of the noise around and concern around TT-Line, which is, quite legitimate for other reasons, from a lender perspective TASCORP is comfortable where we are now in terms of TT-Line's capacity to meet its debt and the requirements in the short-term.

We recognise there's a significant change. We know that will change, potentially, their original business case negatively, because there is a gap between the revenues they were going to get and there is increased debt. What we need to know is what does that look like in reality

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for TT-Line in their short-, medium- and long-term projections. When we have that, we can work through the debt scenario on the other side. We can identify whether there are any concerns or issues which we need to address, but at this stage it would be inappropriate to say there are concerns, notwithstanding there might be some things that obviously are going to change.

CHAIR - Minister, in regard to the building of berth 3 above deck works that are TT-Line's responsibility - is it expected that TT-Line will fund all of that through debt funding? You as Treasurer must have some -

Mr BARNETT - Well, thank you for the question. I'm not the minister for TT-Line. I think the chair has answered many questions about the TT-Line as TASCORP relates to it. My advice is what the chair said in terms of the guaranteed debt level at a bit over a billion dollars, \$1.035 million and my advice is at 30 June 2024, TT-Line's debt level was \$582,205. In terms of their future needs, again, my advice indicates that TT-Line may need to exceed its current guaranteed debt level of \$1.035 million from, I understand mid to late 2025 until the sale of the existing vessels. No doubt the business TT-Line will consult TASCORP as the chair's outlined and then TASCORP will provide advice to me as Treasurer and I'll seek advice, likewise, from TASCORP but also Treasury and other places.

CHAIR - Yes, what I was asking about is the requirement for TT-Line to fund all of the berth 3 works above the deck? What is your expectation about that as to how it's going to be funded?

Mr BARNETT - That's a matter for TT Line. I'm a stakeholder shareholder minister in TT-Line sitting here today with the TASCORP scrutiny. I believe the chair's outlined the summary quite well. I've just added to that in terms of requests that might come through to me as Treasurer, I will seek advice from Treasury, from TASCORP and from whoever is required to respond in the most responsible and sensible way.

CHAIR - As Treasurer, you haven't had discussions with TT-Line about their needs to fund this build that might require additional borrowings in both the hats of shareholder, minister, TT-line and the shareholder?

Mr BARNETT - I am not sitting here today as the TT-Line minister. I'm sitting here as the Treasurer responsible for TASCORP, which we are having a scrutiny hearing.

CHAIR - The question was about the borrowings that might end up with TASCORP. Is that the expectation the additional borrowing, once they get all this information that will include the amount they need to borrow to finish that work?

Mr BARNETT - As I say, that's a matter for TT-Line and when those requests are put to me.

CHAIR - It is not really if it ends up with TASCORP.

Mr BARNETT - I will take advice on those matters. It's very important all GBEs borrow through TASCORP. I'll take advice from TASCORP and TT-Line will no doubt make their views clear to TASCORP. The chair is sitting next to me. The chair has answered it very thoroughly. I take these matters very seriously and I'll take advice on it.

CHAIR - If I ask the chair then, has there been discussions with TT Line? Early on in our hearing, you said you consult with the Treasurer and all the government businesses to understand their requirements for borrowings. Is this something that TT-Line has raised? They will need to borrow additional funds to fund berth 3 works which they're responsible for?

Mr BAKER - There've been discussions with TT-Line regularly, probably more regularly than in normal practice, which is good. TT-Line has been open and transparent with us, but at this stage they are still working through what their requirements are with the recent developments. We've not received any requests for a formal increase, noting that it will be guided by the updated financial forecast.

CHAIR - That's one of the pieces of information you'll need to look at additional borrowing should they be requested as well as perhaps, the cost of mooring it in Leith and all the other things that might have to happen.

Mr BAKER - Yes, these are all, you know, material matters that need to be built into the cash flows both in and out for the business in the short and medium term.

CHAIR - I might move on to another area if that's alright, in respect to the governance of the organisation. I note there are three board members -not a big board - whose terms are expiring in a relatively short period of time. Yours, Mr Ferrall, is up in the middle of next year. There is another in May next year, which is before that, and one in September the following year. What's the plan for renewal there?

There are two parts of this question, the plan for renewal, what are you doing to plan ahead, because it's obviously a specialised set of skills this board requires? How are you promoting diversity on the board in the recruitment?

Mr FERRALL - Ultimately, it's a matter for government in relation to whether particular board members or - at the end of particular terms they are potentially extended or not. The first point is a matter for government to work through. We are currently planning for a recruitment phase for David Sietsma, who's a board member who is due in May. Currently, at the end of May, it's my understanding, that I will not be continuing beyond that point in time.

CHAIR - There are two members pretty close together.

Mr BAKER - Previously, the board was four and at the moment it's five because Gary, Secretary of Treasury, is also on the board. So, Gary's most likely a matter for government, going to replace me as chair in May/June next year. I will leave the board. And then we will have a board which is currently, or then gender diversified two and two, in terms of gender diversity.

The replacement for David, if that is the government's position, would be done through a recruitment process between effectively January and May next year.

I've been involved in, over time, all of the recruitment processes that we've had for TASCORP board members, and they are generally quite difficult recruitment processes. There are individuals that you require the board have quite unique skills and it's not a proliferation of people in the community who would necessarily have the skill sets that are needed. So, we

have always had a lot of challenge trying to, you know, maintain and keep the appropriate skill sets.

CHAIR - You focus on the skill sets more than diversity. I'm not just talking about gender diversity. I'm talking about other forms of diversity, which is not a bad thing, I'm not saying it's wrong.

Mr FERRALL - The point I would always make is that you have to look at the skill sets first. What you've got to do is create an appropriate environment that ensures that you can get those skill sets and get diversity.

You can't recruit for diversity on a small board, particularly because you may not have appropriate skill sets for the board to function. So, we always focus on appropriate skill sets, but have an eye to ensuring diversity as much as possible. But we have to recognise and acknowledge that the market that TASCORP is in is an exceedingly narrow market. You know, each state has a CBA and you've effectively got the equivalent in the Commonwealth. Beyond that there are no businesses that are the same as TASCORP in the country.

So, when you're looking at an appropriate skill set, yes, we look at banking and we look at investment and all of those things, which gives us a wider pool. But, there are some skills that are just not - you know, it's not generic banking to be frank.

Ms O'CONNOR - Are you actually leaving this time?

CHAIR - He just said he was.

Ms O'CONNOR - I didn't know that, but you've been Secretary of Treasury for such a long time, a very good one I might say.

Mr FERRALL - Thank you for that. My term finishes in May next year. So, historically, the Secretary of Treasury has been on TASCORP, not necessarily always chair, but has been on TASCORP. I have a personal view that it is important for Treasury to be represented on the TASCORP board. Doesn't necessarily have to be the secretary, but that's for others to debate or work through.

It's very important, I think, and necessary for ensuring there's appropriate communication between TASCORP and Treasury.

Other jurisdictions don't necessarily have exactly the same model, but they do tend to have, you know, Treasury closely aligned with their TASCORP equivalent, for very obvious reasons.

CHAIR - No surprises.

Mr FERRALL - It's no surprises. It certainly aids. Information flows to and from both organisations, which are critical to ensure that they can function properly.

So, long answer to your question, yes, I'm finishing in May.

Mr BARNETT - I'd like to add to the answer if I could, very briefly.

I'd like to put on the record my sincere thanks and appreciation to Tony Ferrall for his long and distinguished service to the public, specifically to Treasury and specifically in this case to TASCORP since 2013 on the board, and obviously as Chair of the Corporation, for which I am very grateful, the government is very grateful and I think others, hopefully, I'm sure around this table and elsewhere are also very grateful and I want to acknowledge that. Thank you, Chair.

CHAIR - Just on matters of corporate governance, acknowledging that we won't see Tony next year - well, not on this one anyway, maybe he might pop up as a chair of TT-Line or TasPorts. Which one do you want?

Ms THOMAS - Or a merged version.

CHAIR - I'm interested in terms of governance and I welcome the government's review. I think the review is probably going to solutions too fast, the paper was put out - personal opinion - but back to the matters of board governance here, how frequently does the board evaluate its own effectiveness and what metrics are used?

Mr FERRALL - We do it annually. We have a range of metrics. We also do an external board review periodically, so we effectively call and do a self-evaluation anonymously internally and annually, but we also have an external review done as well.

CHAIR - How often is that done?

MR FERRALL - It's generally about three years.

CHAIR - So, when was the last one done?

Mr FERRALL - It was 2022 or 23. 2022.

CHAIR - That must be due again. What was the outcome of the 2022 review?

Mr FERRALL - Look, it was a very positive review but I mean, we go through a whole range. For a board to work well people have to be very functional, work extremely well together, they have got to be open, you've got to have people who are willing to stand up and make comment, you've got to have people who don't take things personally, if there are comments. We go through a feedback approach which, yes, deals purely with metrics, you know - do we have enough meetings? Are the meetings too long? Are they too short? Does management get the feedback it needs?

CHAIR - Does everyone participate? Those are the questions?

Mr FERRALL - Everybody participates, including management in that feedback, but we also, effectively, do anonymous feedback on the individual board members where we basically provide the feedback that we might see as necessary in terms of whether somebody's not participating enough, whether somebody's dominating debate or discussion, whether I, as chair, we're letting the debate go too long, all of those sorts of things. We take that feedback and, as we have recently with an internal board review, we then consider all of that feedback and to give, by way of example in the last feedback, we had some comments about the level of

detail in some of the management papers and as a board we recognised that sometimes we might be burrowing too deeply in terms of getting some level of detail that might not be necessary or in some cases was repetitive because we had a paper on it last month, but we asked for another paper, et cetera. I gave Heath some feedback from our board review, which effectively said 'look, we're open to you having reference to past papers rather than trying to repeat them in the current papers. We're open to you referring to internal management committees such as the asset liability committee or our credit committee in the papers so that the management of TASCORP doesn't have to go and write another 40-page paper'. Now that might sound a little thing, but when you're a very small organisation and you're doing multiple papers for a board, it can make a lot of difference.

CHAIR - Are there any requirements for professional development for the board and all senior management?

Mr FERRALL - There's not directly for the board, not purely requirements. We're quite open to any professional development that might be requested or required from the board. In terms of the management, I'll let Heath talk about professional development, but we do have quite an extensive approach in terms of trying to professionally develop our employees at TASCORP. Again, we're a small organisation, difficult to recruit into some roles - not all roles, but some roles in TASCORP are difficult to recruit into. We don't have a high turnover generally, which is good and we like to ensure that our people are well-developed, particularly in terms of creating some form of succession planning internally where we can. We're also not averse to ensuring that people are developed to ensure that they have other opportunities, which may not be with TASCORP, but at least you develop them to ensure that they do have opportunities which make them much better employees whilst they're with you.

Mr BAKER - Not sure I can add much more than that, but it is a key focus of management with a team of 22. We've recently had some turnover in the senior management team, so, developing those into their current roles understanding the TACORP business, the financial markets business. We do spend a lot of time and resources and a very highly specialised team right across the board. Professional development and training is something that we really concentrate on to keep our staff engaged to ensure that we don't have a high turnover of staff because it is a very narrow field.

CHAIR - Do you monitor who's doing what training?

Mr BAKER - Yes.

CHAIR - Is there funding for the staff to undertake training?

Mr BAKER - Yes, there is appropriate funding provided and the board has never provided any pushback in providing that appropriate level of funding.

CHAIR - Acknowledging your challenges in recruiting to some positions, I note your gender split, but you haven't provided a gender pay gap. I thought by now we'd all have them, but no, not only TASCORP, hardly any of them.

Ms O'CONNOR - Perhaps there isn't one.

CHAIR - There absolutely is one.

Ms O'CONNOR - At TASCORP.

CHAIR - There would be a gender pay gap. We can look at the management structure and be almost certain.

Ms O'CONNOR - Because it is not diverse?

CHAIR - Yes. I wonder if you could - actually, a swan song, Tony - just ensure -

Mr FERRALL - It depends how you measure gender pay gap. TASCORP does not pay differentially on the basis of gender.

CHAIR - That's not what gender pay gap is.

Mr FERRALL - No, I understand that. We ensure that all of the employees, regardless of gender, are appropriately remunerated for their role. In terms of more broadly is there a gender pay gap? Yes, there is.

CHAIR - It would be good to report it. It should be normal practice for every GBE. TasNetworks do it, at least they did last year. I haven't looked at theirs this year because I've been looking at others, but they have led the way in that.

Mr FERRALL - We don't have any problem in reporting that.

CHAIR - It would just be really good to have it as an important measure, because when it improves it is good to know - acknowledging the challenges in this particular business.

Mr FERRALL - We don't have any problem with reporting it. As I said, you have to start from the premise that we ensure everybody is paid appropriately regardless of gender.

Ms LOVELL - That is the law and has been for a long time.

CHAIR - I am not suggesting you don't.

Mr FERRALL - Even if it's part of the law, it's not always appropriate, particularly in terms of what actually occurs.

Ms LOVELL - Do you know what your gender pay gap is? Can you provide it for the committee?

Mr BAKER - We did look at it internally and at a management level, but, as you pointed out, we are a small organisation. The composition of the senior management team would probably speak to what that gender pay gap may look like there.

CHAIR - I am assuming Fahim is male?

Mr BAKER - Correct. As I say, we do monitor it and we are mindful of it when we move into the recruitment process. It is a small organisation with a very low turnover. It is

something we're monitoring and build into our processes and practices, but we are not formally reporting.

CHAIR - Reporting helps.

Ms LOVELL - Can you tell us what it is?

Mr BAKER - Not off hand.

CHAIR - Can you provide it to the committee?

Mr BAKER - Yes, we can provide that to the committee.

Mr FERRALL - Yes, take it on notice.

Ms O'CONNOR - I want to go back to the review that's planned for TT-Line. Sorry to rake over old coals, but just to get some more clarity here. TASCORP has decided to undertake a full review of TT-Line. That would mean finances, borrowings, future necessary borrowings and capacity to repay, is that correct?

Mr FERRALL - Broadly, yes.

Ms O'CONNOR - Was this review initiated by TASCORP or did TT-Line come to TASCORP to talk about the state of the books and then TASCORP decided it was time to do a full review?

Mr FERRALL - We undertake a credit review of most clients annually anyway. We do look at all of our clients annually on the basis of their credit. In respect of TT-Line, the particular catalyst for this one was the MLFA breach, but we would have been doing a review of TT-Line in the normal course anyway. As I said, we don't sort of set and forget. We do a credit review on the entities, pretty well everyone, annually.

Mr BAKER - Yes.

Mr FERRALL - At the moment so.

Ms O'CONNOR - Okay. So, when you talked earlier about undertaking this full review is what you're saying is that it is TASCORP's standard operating procedure with GBEs, but this one in part has been catalysed by a breach but also changing financial circumstances as a result of the incapacity to get the new boats operational?

Mr FERRALL - Well we had. Certainly, there have been changed circumstances over the period of time and since August, when we were advised of the MLFA breach and we decided in the ordinary course we would do a review, there has been more information come out in relation to the delay, which has led to more questions from TASCORP in relation to how different the original business case is as compared to what the future might now look like. So, that's why from the board perspective we've asked management to present that more detailed review.

Ms O'CONNOR - So, that review would involve TT-Line management coming and presenting to TASCORP about their financial position and their likely projections and then working with TASCORP potentially, I think I heard you say earlier, not to refinance but perhaps reschedule some of the repayments? How does it work? When you undertake a review, what's the outcome likely to be? Without, I mean, obviously, you can't prejudge the outcome, but what's the objective?

Mr FERRALL - Well the objective is from the board perspective to ensure that we can be satisfied that TT-Line in the changed circumstances has the capacity to meet its borrowings or projected borrowings going forward.

CHAIR - So, possibly over a longer period, for example?

Mr FERRALL - There could be an outcome, a change in borrowing profile.

So, look, when we from TASCORP get a set of projections from an entity in relation to the period going forward, we look to sensitivity test it around whether the base case makes sense or whether there are other things that we might, from a more conservative point of view, feed into the base case. So, it's not simplistically picking up what TT-Line might put forward; it's putting a critical lens over it from a lender perspective. Then in some cases we would go back to the entity and say, 'Look, we've looked at this particular assumption. We don't think that's particularly sensible.' An example might be their business case might have a particularly high or low interest rate assumption and we might look at that and go, 'Well, no, that doesn't necessarily make sense and here is our information on the forward curve and we think it's going to be higher or lower than that, then maybe you should consider that as part of your base case as opposed to something else.' So, it's a two-way and detailed interaction. Ultimately, management will present to the board TASCORP's assessment and then, without pre-empting anything, then TASCORP's board can make a decision as to what it might need to do, if anything.

Ms O'CONNOR - Okay, thanks for that. Have there been any further breaches of the master loan facility agreement from TT-Line? Or was it a single event that sparked the review?

Mr FERRALL - No. It's only that they are and are probably still currently in breach of the interest coverage ratio.

Ms O'CONNOR - So, they're unable to repay the interest on their borrowings?

Mr FERRALL - No.

Ms O'CONNOR - They're not repaying the interest on their borrowings?

Mr FERRALL - No, they've exceeded a particular financial ratio that we set as, call it a prudent financial ratio in relation to interest coverage, and TT-Line is required to report to TASCORP if they exceed that particular interest cover ratio, which is what occurred. Now again, it occurred in June.

Ms O'CONNOR - Yes.

PUBLIC

Mr FERRALL - It didn't occur in May and in a mechanical sense, what TT-Line would be doing is they would internally have something set which says they monitor that. They're required to report that to TASCORP, which they have. As we've discussed earlier, we consider that and take appropriate action if necessary.

Ms O'CONNOR - Okay. Chair, I know the member for Rumney sort of asked this before, but how long is this review process likely to take? When would it please TASCORP to have some resolution to the matters?

CHAIR - Probably yesterday.

Ms O'CONNOR - Yes.

Mr FERRALL - Well we'd like to have the information as quickly as we can, but I can't require an organisation to produce something it doesn't know. We are also tied with TT-Line, working through those sorts of requirements to then produce a revised set of projections and revised business case and a review in terms of the cash flows going forward.

It's a big organisation, they can't do it instantly and we can't expect them to and it might take a number of months. As an organisation, we're not concerned about the delay in receipt of the information because we understand where TT-Line is at this point in time and we don't have any critical concerns in relation to its capacity to meet its obligations to TASCORP. If we did, we might have a different view.

Ms O'CONNOR - Okay. Thank you.

CHAIR - In your review of TasWater and their likely borrowing requirements, noting the commitment of \$200 million over - was it 100 or 200 - \$100 million over 10 years has all been paid up-front. Yes, \$200 million it was because there was \$50 million in the last two years. Half of that goes back to councils as dividends, not necessarily directly, but that's how much, it's half of the amount pretty much that the government provides as equity into TasWater goes back to councils. Are they indicating they're going to have to increase their borrowings to deliver their program?

Mr FERRALL - I think [inaudible 10:57:48AM] discussion with TASCORP - with TasWater.

CHAIR - TasWater.

Mr BAKER - No, it's more of - most of the businesses that we have an increasing infrastructure spend and TasWater is pretty much like every other government business that they are forecasting their borrowing requirement is going up. I think they've got a \$1.5 billion infrastructure project over the next four to five years they need to fund, whether that's from free cash flow and/or borrowings. Yes, their borrowings are forecast to increase. We have regular meetings with them and we establish a review each year to look at what their borrowing requirements are over the next 12 to 18 months to ensure they've got limits in place.

CHAIR - You're not concerned about their capacity to meet the obligations without the proposed government support because that money is all in there now.

PUBLIC

Mr FERRALL - No, I don't - look, the history of the government support or the equity injection also included a requirement over a period of time for TasWater not to increase its water charges. There were multiple angles to that original equity position the government took. From TASCORP's perspective, we'll look at their future borrowing the same as we look at everybody else. We'll look at their revenues. I mean quite obviously they have regulated revenues which you know, assists in that regard from a lender perspective, but we'll need to look at their forward program and make a lending decision at that time.

CHAIR - This one for you then, minister, as treasurer, because it was Treasury who put the money into the organisation, being that it's at least two years ahead of what was planned in providing TasWater with that equity. Does that mean the rules that applied with that equity investment of no increasing water charges still applies or is that now redundant?

Mr FERRALL - That was for a fixed period only.

Mr BARNETT - Yes.

CHAIR - For the fixed period of the 10 years?

Mr FERRALL - I know some history, but I would need to check it but there was a fixed period only, and it wasn't for 10 years, I'm pretty certain of that. It was a limited period. TasWater again as a regulated entity has sort of a known revenue return that it gets as well. We, as a purely TASCORP perspective, will look at its borrowing requirements, look at the potential variability and its revenues and make a lending decision.

CHAIR - It is 11 a.m. thanks everyone.

Mr BARNETT - Chair, can I just -

CHAIR - Yes.

Mr BARNETT - Thanks very much, Chair. That's alright. I just wanted to clarify.

CHAIR - There are a couple of matters outstanding, there's obviously the gender pay gap we'll write to you about. There's also the guarantee limits for each of the GBEs. Do you have that now to table or?

Mr BAKER - There're not in a format yet.

CHAIR - We'll add that to the list.

Mr BARNETT - We can do it quickly today. It hasn't been formatted, I'm advised. We'll get to it very swiftly.

CHAIR - We'll include it in our in our correspondence.

Mr FERRALL - We'll definitely provide it. There's no issue.

CHAIR - Yes, that's fine. If you provide it now, I wouldn't need to ask, but that's alright.

PUBLIC

Mr BARNETT - That's not a problem. We'll get to it.

CHAIR - Well, thanks for your time today and all the best in your retirement, Tony, and look forward to see where you might pop up next.

Mr BARNETT - He's not retired yet.

CHAIR - Thanks, minister.

The witnesses withdrew.

The committee suspended at 11.01 a.m.