PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS - TT-LINE SPIRITS PROJECT

TASCORP OPENING STATEMENT

Thank you for the invitation to attend the Committee's Inquiry into the TT-Line's Spirit Project and your request to provide further details with respect to TT-Line's breach of its debt arrangements with TASCORP in late 2024.

Through this opening statement, a copy of which I am happy to provide to the Committee for its records, I intend to outline the background and context to the lending covenants we have in place with TT-Line, including a timeline of events for the recent breach. I believe this will provide the Committee with the information it seeks. Heath and I are also happy to address any other issues which would assist the Committee in its Inquiry.

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

As you would be aware, TASCORP's principal role is to develop borrowing and investment programmes for Participating Authorities – which includes: State authorities (which are defined under the TASCORP Act), and local Government Authorities.

For all Participating Authorities, other than General Government borrowing undertaken through the Department of Treasury and Finance, TASCORP has in place a Master Loan Facility Agreement (MLFA).

MLFAs set out the terms and conditions of all borrowings, including appropriate Financial Covenants.

Financial Covenants are the promises/agreements entered into by a borrowing party that are financial in nature. An example of a financial covenant is when a borrowing entity agrees to maintain (staying above or below) an agreed ratio. Common financial ratios used include interest coverage ratio, total assets to debt ratio, or debt to equity ratio. Depending on the terms agreed in the MLFA, breaches of Financial Covenants may be a *'notice of acceleration event*' or may give rise to an obligation for the client to advise TASCORP of the breach, the latter of which I'll refer to as a '*notice of advice event*.'

As is implied by the terminology, a *'notice of acceleration event*' gives TASCORP the right to accelerate any outstanding loans – effectively they are a default event giving TASCORP the right to immediately call outstanding loans.

A *'notice of advice'* event creates an obligation for the borrower to advise TASCORP of any actual or potential breaches in the Financial Covenants, hence acting as an alert to TASCORP in the event that the borrowing entity is not operating in line with parameters identified when the loan was established (generally based on the parameters identified in the borrowing entity's business case). A '*notice of advice'* event does not give TASCORP rights to call outstanding loans.

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

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

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

The Financial Covenants in TT-Line's Master Loan Facility Agreement (MLFA) at this point in time were:

- Interest Coverage Ratio 0.4 times
- Financial Leverage Ratio < 350%
- Material Adverse Change < 10%

The MLFA had been in place for some years and the Loan Covenants related to previous TT-Line borrowings, which had been repaid. At this time, project (business case) modelling indicated that the Interest Coverage Ratio was forecast to drop to 1.46 times during the construction period of the new vessels.

Under the MLFA in place at this point in time, the Interest Coverage and Financial Leverage Ratio covenants were *'notice of acceleration events'* if a breach of a covenant occurred, TASCORP had rights to issue TT-Line a notice requiring it to immediately repay its loan.

In **April 2018**, TASCORP's Bord approved an increase in the borrowing limit to $665 million for the replacement of the TT-Line vessels due to variations in the contract price of the vessels and to cover the exchange rate of the purchase, subject to the Treasurer providing an updated Letter of Comfort. Notwithstanding this increase in the facility limit TASCORP is of the view that the project remains financially viable.

Notwithstanding the borrowing limit in place, TT-Line did not borrow from TASCORP until 2023 as detailed in Attachment 1 (noting also that the Vessel Replacement Fund had a balance of approximately $80 million in June 2020).

Over the period from April 2018 to November 2022, there were numerous interaction between TT-Line and TASCORP, these related to hedging contracts for the foreign exchange necessary for the vessel purchase; interactions in regard to the financial difficulties experienced by Flensburger Schiffbau-Gessellschadt FSG, TT-Line undertook negotiations with Rauma Marine Construction (RMC); there were also interactions in relation to the COVID guarantee put in place by the then Treasurer for all TASCORP borrowing entities; and the Vessel Replacement Taskforce investigated options for greater involvement by Australian businesses in the replacement of the TT-Line vessels.

I won't go through TASCORP interactions in detail, but they are recorded in various TASCORP management file notes; Credit Committee Papers; and Board Papers and Minutes.

In **November 2022,** TT-Line's borrowing limit was increased to $745 million, subject to the receipt of a Deed of Guarantee from the Treasurer. The MLFA covenants were also updated to better reflect the then revised business case. New Financial Covenants included:

- Interest Coverage Ratio 1.0 times
- Financial Leverage Ratio < 75%
- Material Adverse Change < 10%

At the time, updated project modelling indicated that the Interest Coverage Ratio was forecasts to drop to 1.58 times. The Covenant was therefore set at 1.0 times to provide a buffer for operational flexibility.

Due to the support from the Treasurer through a Deed of Guarantee, breaches of the Interest Coverage and Financial Leverage Ratio covenants were changed from a '*notice of acceleration event*' to a '*notice of advice event*'.

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

Over the period from November 2022 to August 2023, TASCORP interactions with TT-Line included: information related to RMC cashflow issues and Devonport Berth 3 potential cost increases.

On **30 August 2023**, TT-Line advised TASCORP that "*Expected costs to complete Berth Three infrastructure escalated significantly once tenders were received for the majority of the works…*".

On **29 November 2023**, TASCORP Board approved an increase in the Vessel Replacement Project (VRP) Loan Facility limit of $700 million to $990 million and maintenance of the $45 million Working Capital Facility; and approved amendment of the VRP loan facility's term limit from 15 years to 25 years.

During the period **December 2023 to April 2024**, there were various interactions with TASCORP, TT-Line and Treasury including advice related to the potential insolvency of RMC and TT-Line agreeing to pay an additional €50 million and waive cost escalation and time overrun penalties to support RMC's cashflows. TT-Line advised TASCORP that it would meet the additional payment within its existing borrowing limit. It should be noted that this period encompassed the Caretaker Period preceding the 2024 Election.

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

On **12 August 2024,** TASCORP responded confirming receipt of the advice and also confirmed that while TASCORP holds both a valid, executed Security Deed, and a guarantee under section 15A of the TASCORP Act in an amount equal to or exceeding TT-Lines’ outstanding liability to TASCORP, TASCORP does not have the right to accelerate the loans.

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

On **28 August 2024,** the TT-Line update was discussed at TASCORP’s Board meeting, at which time the Board supported the decision of the Credit Committee that the borrowing review be bought forward.

It should be noted that borrowing reviews are a normal annual process undertaken by TASCORP in relation to its clients – the advice of TT-Line in regard to its deteriorating financial position led to TASCORP bringing forward the review.

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

At the **30 October 2024** TASCORP Board meeting, the Board sought an update from management and received further confirmation that management would review TT-Line's credit assessment once updated financial forecast became available, noting that the client's business case had now changed significantly since original approval.

On **7 November 2024,** TASCORP forwarded TT-Line a detailed list of questions in order to progress the borrowing limit review.

On **18 November 2024,** the Acting CEO of TT-Line, Kim Sayers, provided TASCORP with an update on various matters including advice that TT-Line was still in the process of developing updated financial forecasts based on the latest available information.

On **15 January 2025,** TT-Line provided interim responses to TASCORP's questions for the borrowing review. At this time, TT-Line was expecting that full financial forecasts would be provided to its Board at or before its February meeting, once the revised costs for the Berth 3 project were known.

On **4 March 2025**, TASCORP received TT-Line's unaudited interim report for the half year ended 22 December 2024. As previously advised by TT-Line, it was not in compliance with the Interest Coverage Ratio for the first six months and the coverage deteriorated to 0.15 times. TT-Line remains in compliance with the other MFLA covenants.

On **12 March 2025**, TASCORP CEO met with the new TT-Line Chair, advice received at this meeting indicated:

- East Devonport development scope and costing are currently being refined and will be available soon, cost increases are expected but cannot be quantified at this stage.
- An increase in TT-Line's borrowing limit will be required encompassing the East Devonport development and additional operating expenditure over the now extended construction period.
- The current borrowing limit is anticipated by TT-Line to be sufficient until September 2025.

At this point in time, TASCORP is still awaiting TT-Line's updated financial projections and revised business plan to enable it to progress its borrowing review.

To date, TT-Line has continued to fulfill all financial obligations to TASCORP as and when they fall due.

TT-Line Borrowing Limits History

Date	Physical Limit ($M)	Physical Utilisation ($M)
27 May 2009	80	53
3 Dec 2010	40	25
13 Jun 2012	15	Nil
9 Apr 2015	15	Nil
12 Jul 2016	15	Nil
12 Jul 2017	15	Nil
5 Jan 2018	620	Nil
23 Apr 2018	665	Nil
28 Oct 2019	665	Nil
2 Jul 2020	665	Nil
17 Dec 2021	665	Nil
29 Nov 2022	745	Nil
30 Jun 2023	745	186
30 Jun 2024	1,035	583
19 Mar 2025	1,035	819

Amounts are rounded to the nearest million.

Table A: MLFA Compliance

MLFA Covenants	Min. Requirement	FY24	1H25
Material Adverse Change	-10%	-4%	-2%
Financial Leverage Ratio	75%	57%	63%
Interest Coverage Ratio	1.0x	0.95	0.15
3rd Party Financial Indebtedness[1]	< $410 million	Met	Met

1. This Covenant relates to TT-Line lease obligations in relation to the Geelong Port Facilities.

DEFINITIONS

Continuing Operations	means the core activities undertaken by the Borrower in the normal course of its business which the Borrower has a reasonable expectation will continue into the future.
Financial Leverage Ratio	means long term debt, plus current maturities and other short-term borrowings divided by long term debt plus current maturities and other short-term borrowings plus shareholders equity. Long term debt and short-term borrowings includes lease liabilities.
Interest Coverage Ratio	means earnings from Continuing Operations before interest, taxes and depreciation (excluding one off abnormal items), divided by interest expense. Interest includes interest on lease liabilities.
Material Adverse Change	means a reduction in the net assets of the Borrower in excess of 10% of the amount reported in the preceding financial year.