



PARLIAMENT OF TASMANIA

TRANSCRIPT

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESS SCRUTINY COMMITTEE A

Tasmanian Public Finance Corporation

Monday 14 December 2020

MEMBERS

Hon Ruth Forrest (Chair)
Hon Mike Gaffney
Hon Sarah Lovell
Hon Dr Bastian Seidel
Hon Rob Valentine MLC (Deputy Chair)
Hon Meg Webb MLC

WITNESSES IN ATTENDANCE

Hon. Peter Gutwein MP, Premier, Treasurer, Minister for Climate Change, Minister for the Prevention of Family Violence, Minister for Tourism

Mr Tony Ferrall, Chair Tascorp, Secretary of the Department of Treasury and Finance

Mr Anton Voss, Chief Executive Officer, Tascorp

Mr Andrew Finch, Chief of Staff

Mr Ignacio Welch, Chief Financial Officer and Corporate Secretary, Tascorp

PUBLIC

The Committee met at 8.57 a.m.

CHAIR (Ms Forrest) - Welcome, Premier. I you would like to introduce your team at the table.

Mr GUTWEIN - From my right, Anton Voss, CEO of TASCORP, Tony Ferrall, Chairman of TASCORP and well known as Secretary of Treasury. To my left, Andrew Finch, Chief of Staff.

CHAIR - Did you want to make any opening comments. It has been a bit of tough year in some respects so I invite you to make some opening comments and then we will get into the questions.

Mr GUTWEIN - I will make a very short opening statement, thank you.

Like for many Government and private businesses, 2019-20 was an extraordinary and challenging year for TASCORP with COVID-19 having significant impacts on global economies and financial markets. While there were periods of financial market stress, demand for TASCORP bonds remained strong with unprecedented policy intervention by the Reserve Bank of Australia calming bond and money markets. Interest rates fell sharply across the yield curve and TASCORP bond yields fell to record low levels.

The economic impact of COVID-19 had major and rapid implications for many of TASCORP's clients who suffered declines in revenue. In response to the uncertainty and widespread impact, the Government explicitly guaranteed all TASCORP's loans to government businesses and other clients to ensure they had timely access to funds from TASCORP if required.

One of the key priorities in times of market stress is to ensure liquidity is available to meet our client's cash needs and support the credit rating of TASCORP and the state. TASCORP's gross balance sheet grew by approximately \$1 billion to \$9.2 billion by 30 June 2020, due to increased issuance of benchmarked bonds to fund increased client loans and to enhance liquidity.

Despite the significant market volatility that arose at times during year, the high credit quality of TASCORP's balance sheet and the low risk approach taken through hedging meant TASCORP met or exceeded all financial and non-financial targets set out in the statement of corporate intent. Total tax and dividend returned to the state in 2019-20 totalled \$144.9 million. This included a special dividend of \$39.5 million to return excess capital built up over previous years and \$83.7 million for the Mersey Community Hospital fund.

TASCORP continued to operate without interruption throughout the pandemic with staff split between the Murray Street office, the business continuity site at Lenah Valley, with others working from home.

Finally, I take the opportunity to thank the board and staff for their commitment and professionalism during what was a very challenging year and one I am sure they will not forget.

CHAIR - Thank you. I will start.

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TASCORP's client exposure by sector, Government has become a significant borrower with TASCORP, which is not a surprise. It is not a criticism; it is just the reality. How are you expecting the borrowings to be repaid? What are the terms and the interest rates on the borrowings? Looking at page 11 of the annual report, the money on deposit from Government -and I ask if next year you produce it so it can be printed on an A4 page; even with my glasses I have real trouble reading this.

Mr GUTWEIN - It is the first year we have gone to that format.

CHAIR - I know. It is terrible, so I am just telling you.

Mr GUTWEIN - Thank you for the direct feedback.

CHAIR - Even those with good eyes might struggle.

With the money on deposit from Government - which is probably a lot less - I assume this was unspent funds earmarked for the COVID-19 response. If you could address those issues about the borrowings initially and then the money on deposit.

Mr GUTWEIN - I will get either Tony or Anton to provide some more detail. The current weighted average interest rate of the Government's portfolio is 1.28 per cent, and the weighted average term to maturity of the portfolio is about 7.24 years. So, borrowing at a very low rate. Obviously, over the course of the forward Estimates, the level of borrowings increases as has been well documented through the Budget and through the Budget period.

Currently with the metrics we use, the fiscal strategy includes a benchmark of interest costs and payments in terms of superannuation not exceeding 6 per cent of cash receipts. Over the four years we remain within that metric in terms of the fiscal strategy. When you look at the numbers it would need a blow-out of more than a doubling of the amount of interest charged that we pay over that period to get anywhere near pushing that.

CHAIR - How long a period are we talking here?

Mr GUTWEIN - That is the forward Estimates. Regarding what we will do in respect of managing this and paying it down, work is under way at the moment on the fiscal strategy, which will be detailed in the lead up to next year's budget of what the options are in either managing it in a steady state or, conversely, looking at how we might pay that down. Obviously, for the benefit of the committee, it is simplistic, but the bottom line is we need to grow our economy, we need more revenues. If we have more revenues and surplus capacity then we will start a program of paying that down over time.

CHAIR - In the annual report, which I accept is an annual report -

Mr GUTWEIN - What page of this very difficult -

CHAIR - Page 11, if you can see the numbers. That only goes out to the financial year 2021. How big are the borrowings? Are you expecting them to get bigger in 2022, 2023, 2024?

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Mr GUTWEIN - I refer you to the general Government balance sheet of the Budget. Borrowings over the forward Estimates rise by 30 June 2021 - this is gross borrowings it is not net debt - of a little over \$3 billion to around \$5.2 billion over the four years.

CHAIR - From what you said, Treasurer, I believe there has been some modelling done as to what the impact of a rise in interest rates would do.

Mr GUTWEIN - Over the forward Estimates, the metric we use - the 6 per cent of cash receipts - at the moment the total interest costs for the Government are around, I would need to look it up, but I think it is around \$70 million at the end of that four-year period.

If you apply the 6 per cent benchmark to the then cash receipts in that particular year, you could almost double the level of interest payments and still be within that 6 per cent envelope.

We have had that same fiscal strategy since I became Treasurer back in 2014-15. It stood the test of time. We haven't changed it. In fact, when I became Treasurer, from memory, there had been seven changes to the fiscal strategy over the last 12 to 15 years. As a new aspect of that fiscal strategy, we will need to introduce options for reducing the debt in next year's budget, and over the next decade.

CHAIR - There is still some money on deposit shown in that same table or chart. In 2020, there is a not insignificant amount of state Government deposits. In 2021, that drops right away.

Mr GUTWEIN - Tony can talk about the money held on deposits, but again I refer to the balance sheet. Right across the forward Estimates, in the general Government sector, we hold about \$1.16 billion, starting from the end of this current financial year. We are still holding more than \$900 million in cash at the end of the four years, which then provides us with that obvious offset in terms of net debt, and we arrive at a little over \$4 billion worth of net debt at the end of four years.

Mr FERRALL - One reason you see the drop-off is that the general Government is holding deposits with Westpac, so not all the deposits are directly through TASCORP.

CHAIR - The ones TASCORP is holding are the ones I am interested in.

Mr FERRALL - That's why the general Government sector, the reason the state Government deposits has fallen away is because we are holding substantial deposits with Westpac. We are budgeting to hold them through Westpac over that period.

Mr VOSS - The other issue is that the annual report was also done before the Budget was released. For example, the cash balances in the specific purpose accounts - the amount and deposit - that was our estimate at the time, but that could vary going forward, depending on the outflows of the Government and what is required.

Mr VALENTINE - Trying to understand as a layperson - I am not an accountant by any stretch. You borrow money from TASCORP, and then you give money back, basically?

Mr GUTWEIN - They hold deposits.

Mr VALENTINE - So, where is the benefit to you in actually doing that?

Mr GUTWEIN - That money that Westpac would hold, I think, would largely be the cash-backed specific purpose accounts which we hold.

Across Government, and in the Budget, if you go to the section on public accounts, it actually details the specific purpose accounts that we hold across agencies. That is cash back in, for example. I make the point that there has been a policy change in this area. Normally what we would do, during the course of the year, is not cashback for specific purpose accounts, but we would have an overnight borrowing on 30 June.

Mr VALENTINE - I've heard about that. Someone brings that up occasionally.

CHAIR - Not any more, because now we have the Financial Management Act. That's changed that.

Mr GUTWEIN - We now cashback those accounts through the course of the year, and as Tony said, some are held on deposit with TASCORP, not much. Others are held with our bank, Westpac.

CHAIR - On page 25 of the annual report, I made a comment as you walked into the room about your staff profile, and the pretty apparent lack of gender diversity. I am wondering what you are doing about that, Treasurer? The other point, because it is quite a small workforce, how you deal with key person dependency and succession planning and that sort of thing?

Mr GUTWEIN - I'll let the Chair of the board talk to that. It would be fair to say that we have a small specialist team. In fact, we have sat at this table now for the last seven years, and I don't think the people behind me have changed.

CHAIR - Kath Morgan-Wicks was there once. Oh no, she wasn't in Treasury.

Mr GUTWEIN - She was a deputy secretary. In terms of TASCORP's specialist team, while gender diversity is an obvious matter we need to consider as we move forward, the other point I make is that we have an experienced team that has been with us for some time.

Mr FERRALL - The Treasurer is correct. We have a longstanding team. While some positions change, not many change in TASCORP, and certainly the more senior members of the team have been stable for a long time. We are committed to improving gender diversity, but you also have to recognise that the nature of the industry or business we are in does mitigate against that to a degree. We are working on it. We know we have more work, but I think the guys behind me would rather keep working for a while.

CHAIR - We are not getting rid of their job today.

Dr SEIDEL - Don't give up, because the industry you work in mitigates against it. That is not the way it is meant to be, is it? I think there would be an expectation that you lead in order to demonstrate.

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Mr FERRALL - We have very few positions come up on an annual basis.

CHAIR - Which takes me to the concern about key person dependency.

Mr GUTWEIN - One other point to make is that, setting aside the Chair, the board is split 50-50 men and women. Add the Chair in, and let's say a 40-60 split, so we do have gender diversity at the board level.

Mr FERRALL - It's 50-50, because Anton is not on the board.

Mr GUTWEIN - That's true, it is 50-50. Sorry, Anton. To come back to Dr Seidel's point, we are not losing sight of it but, at the end of the day in a small specialist team, you are not going to let people go just for the sake of balance.

CHAIR - No, I am not suggesting that.

Mr GUTWEIN - As we move forward, it is front and centre in our thinking.

CHAIR - With all due respect to Anton, he is a relatively new appointment, so there is some change. Could you address the key dependency concern?

Mr FERRALL - We do have key dependency issues, and they are challenging, and Anton can comment in a moment. We try to work across the teams we have and cross-skill within the organisation. The skills we have in some areas of TASCORP can be found in other areas in the state, but quite often they are very specialist. There is no other equivalent organisation in the state, and each jurisdiction only has only has one central borrowing authority, so it is quite a confined or defined market.

Some of the skills are replicated in the banking sector, and so to a degree there are opportunities or options for dealing with those key person dependencies by bringing people in from the banking sector. Primarily we look at the team internally and try to ensure we have enough coverage of the skill sets, so that if we lost an individual, we have capacity to cover.

CHAIR - How did you manage that during COVID-19?

Mr VOSS - Through COVID-19 specifically?

CHAIR - Yes. If any of your team had become sick with COVID-19, it could have been quite a difficult situation.

Mr VOSS - As the Premier and Tony said, it is challenging. I have gone into the organisation from Treasury with hundreds of staff to 19 FTEs. When I came on, I was very cognisant of the gender diversity issue, for example. It is pretty challenging because the staff have all been there for a very long time and I don't have much staff turnover. Since I have been there, we have had two new staff members, but they're largely covering for maternity leave. One was a male and we had a female as well, so we have had both. I certainly was looking at those matters, and I bring it back to key person dependency.

At some point, with people having been in the organisation for a long time, I expect I will see some retirements at some point. That will be an opportunity for me to focus on gender

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diversity and what could be done. But, as Tony said, it is very difficult. There are not people in Tasmania who do the types of things that we do in TASCORP.

Many of the people in the organisation are from interstate and from the banking sector and, as Tony said, also at the moment, at least - it's changing, thankfully - but at the moment it is still predominantly male, in that sector. So, we are very aware of it, trying to work through it, but it's not something I can just do because, unless I put more staff on, the good staff I've got are there at the moment. And on key-person dependency, that's a challenge. As Tony said, you try to do things around cross-skilling and what-have-you and we've got a few people in the organisation who have moved around the organisation but it is a challenge.

CHAIR - How did you respond to COVID-19 regarding managing the office with such a small team?

Mr VOSS - With COVID-19 in particular - outside of someone important getting sick like one of the gentlemen behind us - pretty early on we made a decision that we had to break the office up in case someone in the office came in with COVID-19. We were going to have problems like every other organisation would have, so very early on we split the office.

We have a business continuity site - two rooms out at TasNetworks at Lenah Valley - and I sent around a third of the team out there, which included Ignacio behind me. We sent strategically senior managers and senior people from each team. We had a core little unit operating out at Lenah Valley. We had a core group continuing to operate in the Murray St office up the road here. We continued - including myself - to operate right through that period. We stayed in the office.

We're a critical service provider, for want of a better word. We made them ensure that all the government businesses and the government had their liquidity. The other third went home and did working from home. Like every other organisation, we had to work through IT and various other issues, which we did. That's how we dealt with it and it wasn't until the end of June that we brought everyone back into the office.

CHAIR - Everyone is back in the main office now?

Mr VOSS - Everyone is back in the main office now and have been for a few months but, again, we can respond fairly quickly. But that's how we dealt with it. I split the team up in such a way that if someone got it I would only lose that segment of the team as opposed to the whole team, if that makes sense.

Mr GUTWEIN - On that, it was a question I'm certain I wasn't asked at Budget Estimates - regarding the way the Treasury managed the budget process and for obvious reasons we have got a relatively small team - I want to place on the record David Bailey's efforts through that and with Tony as we were working our way through key-person dependency. It was something that was front and centre in Treasury's thinking as well because, if we had had an outbreak in that team, then we would have had no budget to work our way through. I add my thanks to Treasury's work and especially Mr Ferrall's work through that period.

CHAIR - A lot of pressure, yes.

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Mr GAFFNEY - A follow-up to that one. Since we've been through the COVID-19 experience and you had staff working from home, now that you've had that period of time have you considered a different way of operating now within the organisation and some positive aspects of that?

Mr VOSS - Yes, absolutely. We are an operational business, for want of a better word. Going back to my previous role, there was quite a lot of policy-based stuff, for example, when I worked in Treasury, so that type of work can lend itself better, I think, to working from home in that I can go home and write a paper or a brief to the Treasurer on whatever it might be. We don't tend to have that type of task in TASCORP.

We tend to be, as I said, more of an operational business. Having said that, we certainly got some positives out of COVID-19 that I'm sure a range of other businesses did as well. We didn't, for example, have many people able to work from home to the extent we can now. Now, if we wanted to and, in fact, we did a test run deliberately through the COVID-19 period where you can have everybody working from home, and it works. Now, there's a range of inefficiencies around that, but if push came to shove you could do it.

But, yes, what it has done is that it has allowed - even in the organisation some of the thinking around what can be done from home, how does flexibility work and all those types of positives organisations that have dealt with COVID-19 have got out of this. Certainly, looking forward, for example we still have at TASCORP desk top PC's and probably at the next hardware refresh I will get some more powerful laptops to permit some more flexibility. We will probably similarly change how our business continuity site works because of that.

Mr GAFFNEY - While you said there was a range of inefficiencies, were there any efficiencies from that situation, such as staff travel?

Mr VOSS - Yes, the same as many other organisations would get, it is one of those things where typically in an operational type business it would not have been potentially looked at in the same way as it is now. Having had to go down that path we see it works. Similarly, IT has come a long way as we have upgraded to Microsoft 365 through that period which we previously had not done. We had a lot of our stuff on our own servers and now it is in cloud and all those types of transitions have been very positive for the organisation.

Dr SEIDEL - You mentioned the cloud. In terms of safety and security are you comfortable the Microsoft cloud is meeting the standards you would expect a server-based system can offer?

Mr VOSS - Yes, in short. They are as you know one of the largest providers and it is critical to their business. It is very important for a small organisation like ours - the efficiencies you gain about going into the cloud versus hosting things yourself are quite significant. There are risks with hosting your own stuff and there are two sides to the cloud security issue. It is not only what your service provider is able to do and the security they have and the efficiencies we gain from moving into the cloud.

A good example is I am looking at my notes through Microsoft cloud at the moment. The flip is if you keep it onsite on the basis it is more secure on site then I have to think through who is looking after my security, who's dealing with cyber, what staff have got as I don't have

an IT department at TASCORP. We are fortunate we have a gentleman there in operations who has a lot of technical IT background and we have also outsourced to a local firm.

We have progressively moved away from hosting things onsite to in the cloud and yes, we do think about those things, but we stick with the very large companies. If we have an issue with Microsoft 365 then everyone has a problem in the security sense because much of the government is on 365 and, as I said, that is their key business.

Mr VALENTINE - With the key person dependency, last year I asked the question about knowledge management and about people walking out the door and getting run over by a car and what they take with them, what is it that has to be rebuilt, what information have they got that could be stored electronically to aid someone else coming into that position. The answer that came back was, we are looking at it and trying to work our way through it. This is about knowledge base and knowledge management from Mr Rochester last year. Have you done any more work on this? So, while individuals are critical in what they do, the knowledge they hold is more available should something happen to them.

Mr VOSS - The answer to that is yes. We continue to update procedures and policies. For example, I have been checking with Ignacio, our CFO, on updating the finances menu. We are continually updating our documentation. Having said that, the reality is you cannot document everything that is in -

Mr VALENTINE - No, daily things.

Mr VOSS - In a daily set up. Yes, we do have documents there and they are continually being updated by the senior managers.

Mr VALENTINE - With business continuity you are not over reliant on various aspects of your operations that you can't pull yourself out of fix. Do you have well-established business continuity plans?

Mr VOSS - Yes, we have a business continuity plan. We are in the process of updating it now post-COVID-19. We had a pandemic section in the business continuity plan but I think it was in response to SARS. It is interesting. I reflect on those things. You have to react to what is front of you at the time and you go through what our pandemic plan was in our business continuity plan versus what we did. The reality of COVID-19 versus SARS is they are quite different things. As I said before, the COVID-19 outcome has been such that now we are probably more robust in a business continuity sense than we were before because we have much stronger work-from-home capacity than we previously did.

Mr VALENTINE - You probably plan on revisiting them at more regular intervals?

Mr VOSS - The organisation frequently did business continuity site tests, even in the first year I was there, pre-COVID-19. I went out and did one myself to make sure it is all functioning. I have to say I wasn't expecting in my first year at TASCORP to be pressing the 'go' button to use the thing.

Mr VALENTINE - That is why it's so essential.

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Mr VOSS - They are but it is for a different reason. That is the interesting thing about it. The business continuity as we have currently got it set up, it is two large rooms which basically replicates a desk for everyone in the organisation because we are small enough that we can do that: 20 people, a PC for everyone, log on there and away you go.

That is really to deal with something happening in the CBD or our building burning down or something. Now, as we moved through COVID-19 we probably don't have to do it that way. We can probably have a smaller continuity site with key personnel, and the rest of the people could probably work from home quite adequately. That is something we are working through, doing a post-COVID-19 review with the board.

Mr VALENTINE - It is just key software failure, those sorts of things I am thinking of.

Mr FERRALL - At board level we get regular reports on all these sorts of things, including regular reporting regarding software and whether it is current or not. Regarding staff training, we get regular reports on how staff are keeping up-to-date. All of the internal policies and procedures are regularly updated and tested as well.

For a very small organisation it does have all of the overlay you would expect in a much larger organisation, which is one of the challenges we deal with. At board level, we are very cognisant that we are a small organisation, that all of the policies and procedures need to be regularly tested and regularly updated. We are cognisant that unless you are vigilant internally, sometimes these things can slip because of other priorities and all the other issues that people have to deal with. We keep a pretty firm view on those things as we roll forward.

Mr GUTWEIN - On that point, right across Government there are learnings that will come out of COVID-19. Whilst a difficult period, it will lead to some opportunities, Rob. Everybody is having a look at the response post-COVID-19 and working our way through it. I would make the point, though, that we are still in COVID-19 and we need to be cognisant of that as we move forward over the next months.

CHAIR - We might move on. I would like to ask Treasury is I understand there has been a change in the dividend and tax policy for TASCORP. Could you explain the rationale, the timing of the change and the impact? Maybe the chair is better to address the impact, but you can address the other matters perhaps?

Mr GUTWEIN - In terms of the policy, I will read you the note in terms of the Lump Sum Dividend and Income Tax Equivalent Regime (LSDITER) -

In terms of the Treasurer's instruction, the lump sum dividend and income tax regime has a long-term effect if TASCORP's net earnings that are above the amount required to maintain the appropriate capital structure that we agreed between the Government and TASCORP will be returned to Government. Under the TI when TASCORP recommends a total lump sum payment to the Treasurer, it considers factors such as ability to pay, the effect on the general reserve, and the accumulation of retained earnings and volatility arising from market-to-market accounting.

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As you would be aware, they are typically paid in December each financial year, and includes the corporation's income tax equivalent liability for the preceding financial year, and the corporation's dividend payment relating to the preceding financial year, as approved under Section 84 of the Government Business Enterprises Act.

The corporation paid a \$39.5 million special dividend in 2019-20, as directed under section 86.1 of the Government Business Enterprises Act, following consultation with TASCORP. The direction was approved by both Houses of parliament, as per the act's requirement.

I make a point here. If you go back to when I first became Treasurer, and before that, we kept a \$10 million general reserve, which is held by TASCORP. We also had a capital adequacy, and I think, Tony, \$38 million was what we used to target? The retained earnings by the corporation, prior to the decision being taken to issue the special dividend, were around \$100 million. Now we are targeting a \$50 million capital adequacy or thereabouts, including the \$10 million of general reserve. Then, as I have said, we calculate the taxation equivalent, and a dividend is paid subject to the company's ability to pay.

CHAIR - It is different from the other GBEs, for the obvious reason it is a different GBE.

Mr GUTWEIN - It is. I make the point that we do not apply the 90 per cent standard dividend policy to TASCORP.

Mr FERRALL - TASCORP is not a capital-intensive business, so we do not have the need for major capital investment that you see with the other GBEs. Going forward, the expectation is effectively that between the tax payment and the dividend, that will be equivalent to our net profit before tax. Effectively, we return to the Government all our net profit. There is no need for us to retain profit in a capital-intensive business. The board reviewed the capital requirements prior to recommending to the Government that we pay a special dividend of \$39.5 million, and through that process we effectively evaluated that we required capital of about \$50 million. I would have to check the exact amount, but I think currently our capital is about \$61 million.

CHAIR - Okay. Anyone feel free to jump in, otherwise I will just keep going.

Ms LOVELL - Are you going to the Mersey?

CHAIR - Not yet, but you can if you like.

Ms LOVELL - Premier, I had some questions about the Mersey fund. We have seen that the dividends have continued to rise, but the returns have fallen. Obviously, we are operating in an environment that nobody was anticipating, but how will this year impact on the long-term plan for the Mersey fund? What is expected in the next year or two in particular, and have any adjustments been made to that plan?

Mr GUTWEIN - The plan we laid out was to provide a return to the state over a 10-year period. There is a dividend that is paid into the tenth year, albeit through what are difficult circumstances. That dividend is currently forecast to only be around \$16 million,

Ms LOVELL - In the tenth year?

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Mr GUTWEIN - In the tenth year. The plan that was laid out by TASCORP when they took on the role of managing that fund was to provide a return over the 10-year period. Obviously I would like to see the full dividend paid in the tenth year, but at this stage it is forecast to be \$16 million.

You asked in the coming years if there is any change to what is proposed? No. The annual indexation at 3.5 per cent continues, in terms of the dividend payment in return to the state. That will continue. Tony or Anton might like to speak about the investments that sit behind that fund.

Ms LOVELL - Can I just clarify? The \$16 million in the tenth year, is that a revised estimate, taking into consideration this financial year?

Mr GUTWEIN - Yes, it is.

CHAIR - It was more than that.

Mr GUTWEIN - It was.

Ms LOVELL - Thank you. I think we were going to hear some more about the investment plan for the Mersey.

Mr VOSS - I don't want to use the words 'set and forget', because we're not forgetting it, but the Mersey fund was originally set up in such a way that the investments were purchased. It's currently a 75 per cent fixed, 25 per cent floating exposure.

Ms LOVELL - Okay.

Mr VOSS - Sorry, incorrect: 65 per cent fixed, 35 per cent floating. To your point earlier, as interest rates have come down, the floating rate has impacted on the Mersey return. As the Treasurer said, we're still getting a return in the tenth year of around \$16 million. The majority of the funds are in two types of instruments. They're either in corporate-type bonds, or residential mortgage-backed securities. Most of those - or all of them - are investment-grade securities, and they range from AAA through to BBB.

The reality in the declining interest rate environment is that, as rates have fallen, the returns on the Mersey for that floating part also fall, but obviously the fixed ones don't. We do have some compositional changes over time but, as I said, largely the investments have been bought, and there's not a whole lot of churn. We monitor those investments and we can move some of those things around, but the Mersey fund is what it is.

CHAIR - It has taken a significant hit, though. I remember when it was first set up, there was an expectation that they would get an average 10 per cent to 12 per cent return, and I asked where that could possibly be, because I would like to put my money there as well. I am interested in what the average rate of return is at the moment. If interest rates stay as low as they are in a similar sort of frame, are we going to see a further reduction in that expected \$16 million in the tenth year? It's on the record that the government at the time thought it might last until the eleventh year.

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Mr GUTWEIN - I think the expectation was it would be between 10 to 12 years, not 10 per cent to 12 per cent interest. We haven't seen 10 per cent to 12 per cent interest rates since the early 2000s.

CHAIR - I know. That's why I thought they were expecting a better rate of return than they're getting now.

Mr GUTWEIN - When we landed this back in 2017, I think interest rates would have been 3 per cent to 4 per cent, maybe up to 5 per cent, depending on what was backing it, and mortgage securities do back it - so, a 5 per cent return would have been reasonable at that time.

It's probably important to put some context around this. By the time we get to the end of the 10 years - which will be 2026-27 - looking at the overall revenue situation of the budget, with its long-term average revenue growth of 3.5 per cent to 4 per cent, we will have revenues just south of \$10 billion. At the moment we're sitting somewhere between \$6 billion to \$7 billion and, by the end of the four-year period we are at looking at about \$7.5 billion in the current budget. At that time, the dividend payment at 3.5 per cent compound growth each year, would need to be somewhere between \$100 million and \$110 million in the tenth year, that would be the expectation.

It has always been the case that we would move at that particular point to the activity-based funding model that applies to health more generally, which is a 55 per cent to 45 per cent split - the state's contribution being 55 per cent. That would mean we would need a contribution out of the general government sector at around \$60 million in that 11th year moving on.

In a \$10 billion budget that is a fraction of 1 per cent, in fact it is less than 1 per cent, of our overall revenues. It is manageable. That is the view I have always taken as Treasurer, that as long as we are cognisant of where we are going to end up in managing the Mersey Community Hospital back onto activity-based funding in that year - regardless of what level the dividend is - is manageable in the context of the budget.

Dr SEIDEL - A follow-up because the fund was set up as a 'set and forget' and the dividend is pretty much of index of 3.5 per cent, why would you take the risk of having 35 per cent as floating investments? Why wouldn't you look at fixed index? If you are 3.5 per cent of the dividend, why don't you look at the 4.5 per cent to 5 per cent you get, because now you have exposed yourself to unnecessary risk because the markets have changed. Why at the time did you make the decision to say, 'Well, 35 per cent are going to be in floating investments', considering you are looking for a 3.5 per cent fixed dividend anyway?

Mr FERRALL - It has a high component of floating rate in it, effectively because the capital erodes over time. So, you have to have sufficient cash coming out of the capital to pay the dividend. The dividend is not just a component of interest earned. Effectively, the capital has to form part of that which is why the fund is running down from \$730 million to zero over the period.

CHAIR - What is the average rate now ?

Mr VOSS - The current return is 2.36 per cent at the moment.

PUBLIC

CHAIR - On page 4 of your annual report I note there in the key limitations of TASCORP's cost of borrowings that its access to debt capital markets depends on the state's credit rating, over which the corporation has no control. A few questions on that. Doesn't the RBA determine interest rates of state government debt?

Mr GUTWEIN - No. I will allow Anton to speak to that.

Mr VOSS - Sorry, could you repeat the question.

CHAIR - Does the RBA determine interest rates on the state government debt? Will any further deterioration of RBA rates cause further deterioration to TASCORP financial position and what is the projection?

Mr VOSS - No, they don't. They are targeting Australian Government bond rates out to three years under their very large suite of unconventional monetary policy you might want to call it, in response to COVID-19.

CHAIR - Necessary.

Mr VOSS - Yes. The governor has been very clear that they are not targeting specific levels of rates with regard to semi-government bonds. They are buying semi-government bonds through the secondary market; they are not purchasing them directly from the central financing authorities. Our bond rates move depending on what the market view is at the time, and the credit rating of the state is a component of that.

CHAIR - If we go a little bit further with that, if the RBA has bought a significant number of TASCORP bonds, doesn't the price they are prepared to pay to acquire TASCORP bonds on the secondary market determine the price of TASCORP bonds?

Mr VOSS - The price they pay at the time will reflect a market on the day, if that makes sense.

CHAIR - So it does affect the price that you get?

Mr VOSS - Yes, targeting in particular the Australian Government bond rate, drags all the other rates down. That is the intention of what they have tried to do. They have so-called yield curve control at the short end where they are targeting a particular rate, and then they have what's commonly termed quantitative easing policy at the longer end of the curve where they are targeting an amount to purchase the bonds, which includes, as you say, semi-government bonds as well as Australian Government bonds and they have purchased some TASCORP bonds. To the end of October, I think it was around \$150 million.

Mr GUTWEIN - Would it be fair to say that the RBA went to the market with a 0.25 per cent rate for three years? Three years is a relatively short window of time in running a state and looking forward in terms of where we are at. The real issue is what we can get a bond away for the longest period of time at the lowest rate is really where we want to be. That is probably the simplest way of putting it.

Mr FERRALL - We're not targeting, from the general government sector, long or short. We are basically looking at a situation to ensure there is no particular refinancing risks going

forward. You don't want all of your maturities at one point. We are buying across the curve effectively, or across the range of maturities.

CHAIR - What were the interest rates for new bonds issued during the year, not the face so much, but the yield that investors accepted?

Mr VOSS - It varied depending on the term because the curve is an upward slope.

CHAIR - Do you have a range during the year?

Mr VOSS - The bonds would be from 0.5 per cent out to 1.75 per cent at the longer end of the benchmark curve and we do issue bespoke beyond that. Rates can be a bit higher than that, but on any outright basis they are very low and one of the benefits - if there is with regard to the government borrowing funds now versus where previously they had no borrowings compared to other states - the rate which the Treasurer talked about earlier is very low compared to some of the other states, which is a positive in a debt servicing cost perspective because they don't have any overhang of previous debt. We are issuing at record lows at the moment. Rates have gone lower. In the annual report the low in the 10-year was 1.35 per cent and they have gone lower since then, part of which is the RBA monetary policy approach.

CHAIR - Does TASCORP run a tender system for bonds like the AOFM does?

Mr VOSS - We do a range of things. Sometimes we will do what is called reverse inquiry where we will be approached through banks and by investors to purchase on a bespoke basis. We will do syndication. We will do a large issue through a range of banks and we will also do a separate tender through a yield broker, which is a new thing we have done recently. We have done it in the past but we have brought it back in now. That is going with a broader issuance where more people can participate from the market in a direct sense. We have a range of ways in which we can raise funds.

CHAIR - If the RBA is prepared to lend to private banks, as I understand they are, at 0.1 per cent loan facility, why doesn't the RBA lend to the states at the same rate? It is a question for the RBA but I am interested in whether you think it is important, Premier, and whether it is something you should take up with them at National Cabinet?

Mr GUTWEIN - One of the things, and by our exposures lead to the RBA at the moment, albeit a sizable level but still low comparatively to the overall portfolio is, as Mr Ferrall said, what is important is we borrow right across the bond curve as that we set across that so we do not get caught. I know other Treasurers were a little concerned with the 0.25 in the 3-year window available for sovereigns, was you might have put yourself in a position where you are doing a refinancing in three years and the world has changed completely again. As Tony said, we try to borrow right across the curve to ensure we have refinancing flexibility in future years.

CHAIR - Do you think there should be discussion at a national level about all of this? In that regard some states are more exposed than we are.

Mr GUTWEIN - Again, that is a matter for other states. You are right, other states are much more exposed. Victoria makes the borrowings we are entering into look of no consequence whatsoever.

CHAIR - They also have a bigger population and other things that can back them.

Mr GUTWEIN - Utilising a range of metrics they are in far more challenging circumstances than what we are.

CHAIR - I do not know whether you read *The Age*, Premier, but there was an interesting article in there by Ross Gittins this morning. I encourage you to have a look at it.

Mr VOSS - No. I will now.

CHAIR - It is in the Opinion section. He makes the point, and a question I already had on my list, was do you believe credit rating agencies are still relevant in our current climate. I know there was a bit of argy-bargy with some of the other states and opposition parties trying to have a crack. Fell pretty flat as Ross Gittins says in his article. Do you think they are still relevant at this point? Should we even be considering what our ratings are because of the way the monetary policy is being handled at the moment?

Mr GUTWEIN - The Governor of the Reserve Bank has made some fairly strong statements on the public record in that regard, that right now is the time for states to be exercising their fiscal capacity, their balance sheets as economic stabilisers. I know there will always be something in a political sense made of credit ratings. It is important ensuring you manage your finances sensibly and sustainably. Right now, in the scheme of things, any commentary about credit ratings in the current circumstances does not add a lot of weight to the public discourse.

CHAIR - As the article says, it is unlikely the federal government is going to allow a state to default, especially when the debt is with the RBA. It becomes a bit of a moot point, doesn't it?

Mr GUTWEIN - It will impact in the future. You would not want to see a state take itself into a difficult set of circumstances and then, as a result pay a penalty in interest costs in future years. At the moment the commentary from both Moody's Australia and SMP Bank Credit Rating, is relatively positive for us. They have both recognised the strong financial management the state has in the teams it has afforded. My job is to focus on ensuring we bring down a budget that is manageable and sustainable in the state's context. That is what we have been able to do, regardless of the commentary the credit ratings agencies might provide.

Mr FERRALL - You have to recognise all Australian states are very strong in a credit rating, notwithstanding there might have been some changes recently. The importance of the credit rating is there is some form of independent separate analysis that occurs. With absolute issues such as debt costs, it is quite insignificant in the difference between a triple-A and a double-A plus of the pure impact on debt cost. They do have a role.

CHAIR - They are not completely irrelevant then.

Mr FERRALL - No, I do not think they are completely irrelevant. TASCORP as an entity, goes to the market and the market requires an independent assessment. It would be more difficult for TASCORP to go to the market if we did not have a credit rating. I am not saying we could not go to the market, but it would be much more difficult.

PUBLIC

Mr VALENTINE - In the annual report, page 39, on Note 3 there you talk about credit risk and you talk about client advances. I am interested to know whether any state entities had any triggers that went off in their loan agreements and what you did about them if indeed that happened?

Mr GUTWEIN - I do not think there were any triggers that went off. What the Government did was to explicitly guarantee the borrowings of all the state entities - right in the midst of COVID-19, I think it was - so that we ensured all our businesses had access to credit when they needed it.

Mr VALENTINE - Basically so their operations could continue without any risk?

Mr GUTWEIN - If they required it. For example, and Tony will correct me if I am wrong, I think Aurora currently has a facility of over \$400 million but has not drawn any down at this particular stage.

Mr FERRALL - I would have to check that, Treasurer.

Mr GUTWEIN - If a briefing note I read last night is correct, Aurora had a maximum supported borrowing limit of \$425 million but nil borrowings at 30 June.

CHAIR - It certainly didn't last year, did it? We are looking at them later today and I did not see any evidence of borrowing.

Mr GUTWEIN - Aurora did carry quite a significant level of the COVID-19 response. They supported businesses with the quarterly refund of electricity bills. They established a \$5 million fund for hardship and the level of increase moving forward was a negative number in terms of price rises over the coming 12 months. Their revenues will have been impacted, there is no two ways about that.

CHAIR - We will talk to them later about that.

Mr VALENTINE - With respect to Local Government in that space, did anything change in how TASCORP dealt with their requests for loans during the COVID-19 situation? Was there an increased risk? Were there local governments - I won't ask you to name them, I do not know whether that is appropriate - that might have been an increased risk because of COVID-19?

CHAIR - Local government had \$140.4 million advances in that year.

Mr VALENTINE - In terms of the risk there, was that a heightened risk because of COVID-19 or not?

Mr GUTWEIN - With local government we run a very conservative metric in terms of their borrowings. One of the benchmarks is that loans can't exceed 40 per cent of their rates revenue, I think it is, Tony, or it is overall revenue?

Mr FERRALL - Net debt to revenue.

PUBLIC

Mr GUTWEIN - Net debt to net current revenue. They are held very tightly. It would be fair to say that as a result of the appetite for the interest-free loans that were provided by government, that two local government entities requested amounts that we massaged and worked with them on to ensure that they remained in and around that current metric. Outside of that there were no major issues.

Borrowings across the general government sector are really very low, to be frank, and they are very safe because of the fact that local governments can control in large part usually around 50 per cent to 60 per cent of their overall revenues in terms of their rates base.

Mr FERRALL - For local government, any borrowing must be approved by the Treasurer.

Mr VALENTINE - I appreciate that.

Mr FERRALL - It is, as the Treasurer indicated, a relatively conservative approach to borrowing. There are some of the local governments that are approaching or are just over that 40 per cent at the moment which is understandable given some of the support that councils provided, but it's also within their servicing capability.

CHAIR - Can I follow up on that line for a minute? The client advances there are noted on page 58 of the annual report. Before we get to that, in the past, letters of comfort have been issued by you, Treasurer, to government businesses when their borrowing levels are quite high. In light of the fact that you've basically given almost a government guarantee on all loans, does that mean there are no letters of comfort in place now, or are there still letters of comfort?

Mr GUTWEIN - No, there are still letters of comfort in place.

CHAIR - Who are they with?

Mr FERRALL - It would be fair to say because of the way we put in place the guarantee, going forward the letters of comfort become less relevant, obviously, if you've got that form of guarantee compared to the letter of comfort. We're looking at that from both the Treasury and the TASCORP point of view going forward. Whether we maintain that explicit guarantee approach or whether we step back from that is a matter that we will provide some recommendations to the Treasurer over the next coming months. The letters of comfort are less relevant, obviously, for TASCORP as an entity when you've got an explicit guarantee.

CHAIR - What is the term of the government guarantee then? I will come back to who has letters of comfort still but -

Mr FERRALL - It's irrevocable. It's open and -

Mr GUTWEIN - It's open.

CHAIR - Right.

Mr GUTWEIN - We will make a decision on that as we move forward.

CHAIR - How does that overlay with the letters of comfort?

PUBLIC

Mr GUTWEIN - What we wanted to provide was a broad-based level of comfort for our businesses and that's why the letter was issued. In terms of the letters of comfort, they were in place prior to that and will remain in place moving forward but obviously reviewed, as Tony has said, as part of the process.

Mr VOSS - It's note 46, Treasurer.

Mr GUTWEIN - Thank you. I knew it was in here somewhere. There's only a handful.

CHAIR - Yes.

Mr GUTWEIN - Hydro Tasmania, they currently have exposure - this is at 30 June - this is the level of their borrowing, \$769 million. They have a letter of comfort of \$1 557 000 000. Tas Irrigation has a \$68.2 million guarantee in place; their exposure is \$32 million at the end of June. Tasmanian Railway, a \$20 million letter of comfort; \$8 million of exposure. Tasracing has a \$43.13 million letter of comfort; their exposure is \$9.9 million. TT-Line has a letter of comfort for \$665 million and their exposure is zero. They are the letters of comfort in place.

CHAIR - The Tasracing letter of comfort, is that related to the money that was set aside for them to do capital works that the government just pays them interest rates on, or is that a separate bucket of money?

Mr GUTWEIN - That goes back a few years, I think.

CHAIR - It does. It goes back to the sale of TOTE, before you were in charge.

Mr GUTWEIN - That was in terms of the capital upgrades that were announced back then.

CHAIR - Yes. Is that the money that refers to?

Mr GUTWEIN - Yes.

CHAIR - Oh, right. Which is basically a standing thing until it has gone, isn't it?

Mr GUTWEIN - Their borrowings are only 9.9, as I pointed out, that letter of comfort there, but these are reviewed with the businesses on an ongoing basis.

CHAIR - There are none with TasNetworks then?

Mr GUTWEIN - No.

CHAIR - No. Okay.

Mr VALENTINE - With the TT-Line, are you going to that?

CHAIR - TT-Line had \$665 million.

PUBLIC

Mr VALENTINE - How much was it?

CHAIR - 665 but no exposure.

Mr GUTWEIN - 665. That's the letter of comfort but they have zero exposure.

Mr VALENTINE - Yes. That's obviously because of the ferries not being purchased at this point.

Mr GUTWEIN - Regarding the vessel replacement fund, obviously the payment of deposits moving forward would come out of that fund. At the moment, as at the end of October, I think the balance of that fund is over \$160 million.

Mr VALENTINE - Is that still held overseas?

Mr GUTWEIN - No. With the original hedge that was in place, I think the Government made around \$1 million after costs for the original work that was done with FSG. From memory, that hedge returned to the Government about \$37.2 million, so a net \$36 million as a result of exiting that.

CHAIR - The note on page 46 about the foreign exchange risk - does the amount referred to there basically deal with closing off the TT-Line?

Mr GUTWEIN - I will ask Anton or Tony to provide commentary on that.

Mr VOSS - The TT-Line one is the forward FX at that stage.

CHAIR - It says here that it was effectively \$3 million, but you said it was more than that, Treasurer?

Mr GUTWEIN - No -

CHAIR - The \$3 million profit, if you like.

Mr GUTWEIN - No, it's the \$36 million - the \$1 million in costs I think was the way I explained it. On 24 March, the FEC contracts were closed, resulting in the gain of \$37.2 million to TT-Line, due to the significant fall in the AUD-Euro exchange rate since the foreign exchange contracts were struck. From memory, there were around \$1 million-worth of costs associated with that. The net is actually \$36.4 million

Mr VALENTINE - I wondered what was happening to those funds that were overseas.

Ms LOVELL - The Government guarantee that has been provided - is that provided to all GBEs?

Mr GUTWEIN - GBEs and SOC's.

Mr FERRALL - We put in place guarantees across the board. I will give you some more context around the guarantees. TASCORP has had letters of comfort for many years in respect of entities that we may have been less comfortable in lending to. Effectively, the letters

of comfort were an indication from the government of the day that they were well aware of the lending that was occurring. They were ready to give TASCORP as an entity comfort that the government was itself backing it.

Mr GUTWEIN - Tony did explain the letters of comfort to me after I first became Treasurer; they were probably more for my noting than anyone else's, that they actually provided that framework, so that as a government, we were well aware of any concerns.

CHAIR - Because you signed them.

Mr FERRALL - When we move to a guarantee scenario through the COVID-19 situation, at that point - and this was more a Treasury than a TASCORP concern - but we were concerned that the entities may require funding quite rapidly. It was a very fluid situation. Some entities looked like they might have lost significant revenues and had significant outlays in the short term. Ordinarily, in a process sense, if they were looking for an increase in their borrowing limit, quite a few steps would have to occur, involving TASCORP doing a detailed assessment, and Treasury looking at it as well, on a recommendation to the Treasurer.

Treasury's assessment at the time was that, given the high fluidity of the environment, we were better striking very clear guaranteed amounts, so that TASCORP could act quickly if necessary to provide support to those entities. From discussions with the entities, we identified a level of borrowing that they thought they might need in the short term. That is how we established those levels of guarantees.

That gave TASCORP certainty to be able to advance those funds overnight or instantly, if required. It gave the Government businesses certainty that they had funding, because otherwise, potentially, the directors would have had obligations that they may not have been able to meet. Treasury took a set of recommendations to the Treasurer to provide those guarantees. We are now looking at how we might change the framework around that.

It is also fair to note that we have a slightly different framework with our GBE and TASCORP act than some other jurisdictions. We are looking at whether the approach taken in other jurisdictions might be more appropriate or applicable.

CHAIR - GBEs and SOC's are the same, regardless?

Mr FERRALL - Yes.

Ms LOVELL - Speaking from a layperson's perspective, was that a blanket guarantee? Presumably there was a limit for each of those entities. Were any of them refused, or did that guarantee apply across the board?

Mr FERRALL - No entity was refused. We identified a limit and the entities could instantly borrow up to that limit from TASCORP without any further approvals. Most entities did not require anywhere near the level of funding they anticipated. The situation in March through to July was quite different to the situation we are in now.

Ms LOVELL - In terms of the level of liability for the state, what quantum of funding has been guaranteed by the state?

PUBLIC

Mr FERRALL - Ultimately, there is no more liability or different level of liability for the state. The state owns all the GBEs and SOCs, and TASCORP did not access the market. We did not need to get funding to support the GBEs and SOCs. We do not have a greater liability. The guarantee in most respects is internal. Everything TASCORP borrows from the market is guaranteed by the state anyway. This is the transaction between TASCORP and GBEs and SOCs.

CHAIR - Putting money out of your left pocket into your right pocket.

Ms LOVELL - I am curious about what is broader than the letters of comfort.

Mr GUTWEIN - This might help. The longstanding letter of comfort to Tasracing, for example, is \$43 million. The maximum supported borrowing limit to Tasracing as a result of that guarantee was \$18.7 million. It was not designed to open up carte blanche, but the advice of Treasury at the time was that we needed to ensure that there was a necessary, if needed, level of borrowings available that companies could draw down relatively quickly.

Ms LOVELL - Tony, in terms of what you said before about advice being prepared, is it possible that will be the way the state operates in future, with a guarantee rather than letters of comfort?

Mr FERRALL - That is a matter we will just have to work through. We do not have a direct answer to that at this point.

Ms LOVELL - Thank you. I am curious about how it works.

CHAIR - What I am hearing, and correct me if I am wrong, is that the Government guarantee effectively means that any of these state-owned companies or Government businesses can basically access money on demand, within a limit.

Mr GUTWEIN - Within limits, like TT-Line for example which we have just spoken about with a \$665 million letter of comfort. They had from memory access under the guarantee to around \$45 million. It was more of a working capital arrangement put in place should circumstances necessitate it.

CHAIR - The letter of comfort remains in place in addition to the Government guarantee, is that what you are saying?

Mr GUTWEIN - It is part of a whole if you like. What was under the guarantee and Tony, correct me if I am wrong, but it was my understanding at the time and still is what we wanted to do was put in place and ensure they had a facility and if necessary a button could be pushed overnight, as Tony has said. In TT-Line's case we had significantly impacted that business in terms of passengers. At the height of the challenges we were facing in the first half of this year it was a live question as to whether the boats would even sail, depending on what circumstance was in Victoria and likewise. It was providing a necessary opportunity for working capital very quickly if needed.

CHAIR - With current borrowings in place for the various government businesses and state-owned companies are there any concerns regarding their ability to meet the repayments? Aside from the fact there is a government guarantee, are there concerns at all?

Mr GUTWEIN - None that have been brought to my attention.

Mr FERRALL - TASCORP does annual assessments of all of the lending and from a TASCORP perspective we look at it similar to a banker and make an assessment as to whether we think there is a bankable loan. If there are any concerns from the TASCORP perspective we would raise it with Treasury and the Treasurer.

CHAIR - So you would look in the mirror and tell yourself we have a problem here, Tony?

Mr FERRALL - Between Treasury and TASCORP we keep a pretty close check on these things.

Mr GUTWEIN - It would be fair to say coming out of COVID-19 is occurring at almost the same pace we went into COVID-19. The world has changed dramatically since the first half of this year when these matters when our businesses' capacity and availability of funds was a significant issue. We did not know from the height of the challenges we faced from one day to the next whether there would be further restrictions that might limit the capacity of one of our businesses to operate or conversely provide support as we were requiring of many of them, into the community.

CHAIR - During this period, or in the last 12 months, has the Government needed to support or guarantee any loans to state entities?

Mr GUTWEIN - What is your definition of a 'state entity'?

CHAIR - State department, not a government business or state-owned company?

Mr GUTWEIN - No, just the normal operations of the Financial Management Act.

Mr VALENTINE - The TT-Line funds are not being held overseas anymore, so what has happened to those funds?

Mr FERRALL - To be clear, I do not believe the TT-Line funds were ever held overseas.

Mr VALENTINE - I will have to go back to last year's notes.

Mr FERRALL - There was a foreign exchange contract, a forward agreement put in place, but the funds themselves have not been held overseas. That is my understanding.

Mr VALENTINE - I thought we were told last year they were in France somewhere.

Mr FERRALL - They were invested.

Mr VALENTINE - What you are telling me is they were not. I will take that as you say. Are they being held in any special facility here? What is happening with their availability for TT-Line? I presume when they need it, they can draw on it?

Mr FERRALL - Correct. They can draw it when it is needed.

Mr VALENTINE - No special hoops to jump?

Mr FERRALL - The TT-Line Vessel Replacement Fund is a fund held by Treasury with TASCORP. Anton may have the relative investments they are in at the moment.

Mr VOSS - It is all relatively short-term because the funds are primarily around deposits.

Mr VALENTINE - Sorry, just that last bit?

Mr VOSS - The idea of the fund largely but not only, is around payment of deposit for example. We do not know what it is going to look like so TASCORP talked to Treasury around the maturity of that fund, for want of a better word, and how soon they may need the money but at the moment it's all held in short-term instruments. Some is like a cash deposit with a major bank. There's a range of deposits in residential mortgage-backed securities again, and there's also some other bank floating-rate notes, so they're all sort of shorter-term instruments. They're all AAA or AA-minus securities.

So, yes, that's separate to the offshore arrangement which was around doing a forward foreign exchange hedge which, as the Treasurer says, has now been unwound from TT-Line's perspective because obviously the circumstances changed.

Mr VALENTINE - Yes.

CHAIR - On page 62 in your annual report it talks about the TT-Line vessel replacement fund and I know there's an investment management agreement in place. Is this to do with the TT-Line dividends paid into the public account, and some TT-Line dividends in previous years were returned as equity contributions, I recall, I think it was \$81 million, and TT-Line's accounts say that \$81 million of its cash is restricted - that's in their annual report. There's a restricted cash holding in TT-Line of \$81 million plus a balance of \$82.8 million on page 62 of your annual report, in this fund held by TASCORP. I am interested in why it is done this way. Are both deposits covered by the TT-Line Vessel Replacement Fund Act?

Mr GUTWEIN - As of October the \$81.3 million has been returned by TT-Line and is now in the vessel replacement fund.

CHAIR - It has gone back into here?

Mr GUTWEIN - Yes. The balance is now \$163.7 million - that was as at October.

CHAIR - Right.

Mr GUTWEIN - I am just trying to think in terms of the equity whether that was a special dividend and a return of equity in that particular year.

CHAIR - Or shifting of the deck chairs, maybe?

Mr GUTWEIN - I come back to the original concept - and it still stands in terms of the vessel replacement fund - was to ensure that we had a centrally-located fund that was protected by legislation that could only be spent in ship replacement and that's -

PUBLIC

CHAIR - That's right. That's why I'm asking why - the money sat over there in TT-Line's accounts, restricted -

Mr FERRALL - TT-Line took the funding because it was about to be used for the deposit but then it wasn't used for the deposit. That's why it has now been returned to the fund so that's -

CHAIR - All the money now will be in this fund here when next year - if I looked up -

Mr FERRALL - As at October it is. But as at 30 June there was \$82 million held by TASCORP and there was \$81 million which was actually with TASCORP but it was held by TT-Line.

Mr GUTWEIN - Yes.

Mr FERRALL - It wasn't in the fund but it was with TASCORP.

CHAIR - The \$81 million or thereabouts that was moved to TT-Line's account, was that entirely to pay the deposit?

Mr GUTWEIN - Yes.

CHAIR - There was no other purpose for that?

Mr GUTWEIN - My understanding was that was as a result of the original FSG contract, I think from memory, and then obviously FSG -

CHAIR - That was some time ago.

Mr GUTWEIN - found itself in trouble. I am just trying to think when FSG matters changed.

CHAIR - It would be over 12 months ago, wasn't it?

Mr GUTWEIN - The beginning of this year, I think from memory.

CHAIR - Was it. It's within that financial year?

Mr GUTWEIN - It's within that financial year.

CHAIR - Alright. So, it was longer than that ago.

Mr GUTWEIN - The money was moved across and now it has been brought back as a result of that going ahead.

CHAIR - Any other questions on TT-Line vessel replacement?

Mr VALENTINE - No. I checked last year's notes and it did say that you bought a Euro bond.

PUBLIC

Mr VOSS - 14 February, Treasurer, was when we were requested by TT-Line to cancel the deposit payment.

CHAIR - It seems like about three years have passed since then.

Mr VOSS - A lot has happened in the last year.

Mr GUTWEIN - It is the shortest, longest -

Mr VALENTINE - There was a lot of activity.

CHAIR - The shortest of times, the longest of times.

Mr GUTWEIN - The shortest, longest year in history.

CHAIR - Yes. Rob, did you want to -

Mr VALENTINE - No. I was just saying I looked that up from last year and that's exactly what we were told, so you're right.

CHAIR - Can I go to note 9 on page 58 with the client advances. Hydro Tasmania had an additional \$31 million; councils an additional \$58 million on last year; TasNetworks, \$69 million; TasWater, \$20 million; TasRail and UTAS went down. Were there any other significant changes in this and what were the purposes of these kind of advances?

Mr GUTWEIN - Mr Ferrall can speak. Obviously the Department of Treasury and Finance were government borrowings.

Mr FERRALL - I could not tell you exactly why each individual one changed. Some of them would simply be for operational and cash-flow reasons. Clearly the university reduced its advances as at 30 June through that period but we would have to go back to each individual one if you wanted to pick up the reasons why each one has changed. It would be a range of things.

Mr VOSS - To some extent we may not know the full detail behind it anyway because at TASCORP's end we will have a limit with regard to some of these businesses. They will have working capital arrangements and they will borrow within the limits that have been approved by the board or otherwise internally. We may not be across the specific details, for example, as to why TasIrrigation went from here to here necessarily.

CHAIR - The \$750 million to the Department of Treasury and Finance is the COVID-19 response effectively and the borrowings that we need.

Mr VOSS - Yes.

Mr FERRALL - Yes.

CHAIR - There will obviously be more next year, this year we are in now, that is just to 30 June?

Mr FERRALL - Correct.

CHAIR - You have the Treasurer's Annual Financial Report there, Treasurer?

Mr GUTWEIN - No, I am carrying the Budget with me.

CHAIR - Oh, the Budget.

Mr GUTWEIN - Yes, that thing we only brought down about five weeks ago. I do not have the TAFR with me but I will see if I can help.

CHAIR - We have always known about a few loans advanced to third parties and they appear in the total state figures - advances or loans between government entities that are then eliminated on consolidation. Loan advances are principally to local government, TasWater, UTAS from TASCORP. These movements each year are quite small and to other third parties, business, et cetera, and State Growth and the Tasmanian Development board.

The cash rate statement for the total state on page 34, this is in the Treasurer's Annual Financial Report, shows net advances paid for 2019-20 of \$579 million. All advances between the state-owned companies are eliminated when preparing the total state figures. The note covering advances on page 59 of TAFR said these were advances primarily from TASCORP.

TASCORP's cash flow statement in this annual report, on page 30, says these advances were \$522 million of advances. When I looked at the break up of TASCORP's advances in note 9 which we have just referring to, most of these advances were to the general government under Treasury and Finance predominately as we have just mentioned. Can you explain that? I am not sure the TAFR figures line up.

Mr GUTWEIN - I will ask Mr Ferrall to make comment on that.

Mr FERRALL - If I get the question correctly, you will find that the TAFR figures may not line up directly with the TASCORP annual report because there are some estimates done at the point of putting the TAFR together because you don't have all of the finalised accounts. There are some differences or anomalies because of that. I would need to get the details of that question to give you a more specific answer on that. There are some differences -

CHAIR - Because there are estimates made.

Mr FERRALL - which are effectively timing and because of estimates and slightly different points of time. Even in doing the RER as an example, we get figures from TASCORP and we get figures from the GBEs and SOCs and they can be a different point in time. You do see some differences because of that. I would have to go back through the TAFR to pick that up.

CHAIR - There is a difference of \$579 million.

Mr FARRELL - I am not sure what that is.

CHAIR - And it is \$522 million in advances in TASCORP's -

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Mr FARRELL - I would need to go back to TAFR. I am happy to answer the question.

Mr GUTWEIN - We will take it on notice if you like.

CHAIR - Any others? No.

Mr VALENTINE - In relation to University of Tasmania, we often receive letters saying they have purchased buildings way over the value. Probably insinuating there has been some sort of deal done for a mate, or whatever. When TASCORP deals with the university, how do you verify the loans happening are indeed at proper value and those sorts of things? Can you give us an indication of this?

Mr FERRALL - As with all of our clients, TASCORP does not take into account or attempt to assess whether a purchase is of value or not. What we do is assess whether the entity can afford the borrowing and whether the entity can repay the borrowing.

Mr VALENTINE - So it is their risk, not yours?

Mr FERRALL - The entity itself would make a judgment about whether the particular purchase is at reasonable or appropriate value.

Mr VALENTINE - They are wearing the risk, you're not, because their capacity to repay whatever they borrow from you is they are considered to be able to do that, in simple terms?

Mr FERRALL - Yes.

Mr VALENTINE - Does it concern you these sorts of stories run around in any way, shape or form?

Mr GUTWEIN - There are always lots of rumours.

Mr VALENTINE - That gives some interesting information, but whether it is valid information or not is another thing and UTAS is not here to be able answer those sorts of questions.

Mr GUTWEIN - No, but I imagine they would be questions for you to put to UTAS.

CHAIR - I meant to ask this earlier about the bonds and we skipped over it. On page 3, one of the highlights. It says there was \$1.307 million in new bonds issued. The cash flow statement says \$1.333 million was received. Does this mean bonds with a face value of \$1.307 million were issued to bond holders who were prepared to slightly more, say \$1.333 million because the interest rate was favourable. Is that why the difference in what is in the cashflow as related to what was issued?

Mr VOSS - The \$1.307 million number is a face value of the bonds, versus the market value which might be different because of coupon and yield differences. It is the way the markets measure a bond. You can either do it as a face value, so it is a \$100 million face value of a bond. Yields move and depending also on the coupon. The actual amount of money that flows as a result, might be different from the face value. In fact, frequently, it is.

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CHAIR - Is it likely further bond issuances are to be necessary in the next year as we know we are not out of the COVID-19 environment yet?

Mr VOSS - Very much so.

CHAIR - Do you have an indication of what sort of level we are looking at?

Mr VOSS - Total bond issuances for this financial year?

CHAIR - Yes. This one we are in now.

Mr VOSS - We formed the market up to \$3 billion in total. That is a combination of new borrowings that the government, in particular, is taking on, but also, we do, as refinancing. As client's loans mature, they refinance those loans, so it is partially that also. It is how we respond to the client needs and obviously, that is a large number. Yes, you are right. The COVID-19 situation has driven that and the Government is going to become one of our bigger customers as a result, our biggest customer.

CHAIR - Something you have to do at the moment.

Mr GUTWEIN - There is no option, Ruth. I am sure this committee understands that. End of the day, we will exercise our balance sheet, we will borrow more and TASCORP will support us through that.

Madam CHAIR - Any other questions, members? This comes back to the small work force issue and we asked this in a number of government departments through Estimates period with managing of leave. I am sure your team did not have a lot of time off during the COVID-19 and for the foreseeable future there won't be many opportunities without a lot of redundancy. How do you manage the leave, particularly recreational leave? Has your liability increased significantly?

Mr GUTWEIN - Anton can speak to the liability and how he is managing matters of an operational level. It is a very real challenge you raise. As I did during the budget Estimates, I place on the record my thanks to Government staff, public servants, especially those who work with our government business; they went above and beyond.

There are a couple of matters: one is the liability that we need to manage so that doesn't become unmanageable but, more importantly, we need to ensure that we are providing our people with the opportunity to have recreation leave and to ensure that we are recharged. There are many public servants across the general government sector but certainly in our government businesses as well as we get towards of this year, I think the overarching feeling that they will have is one of fatigue. We need to manage that very carefully. Anton can speak about the operational.

Mr VOSS - Thank you Treasurer. We are similar to all businesses. Exactly as you articulated, it was very challenging for people to take leave for that period because everyone was very busy. At TASCORP we have a policy around ensuring staff take a long break through the year. A lot of that is good practice in a financial organisation regarding fraud, so other people needing to do functions of other people is pretty standard throughout the industry. I

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actually had to formally hold that particular policy this year, because of the amount of work we had to do. Since then we have been proactive and I talked to my senior manager about trying to get people back on track, refresh the batteries and those things. Managing leave in our organisation is always a little bit challenging because we are so small. If someone becomes sick while other people are away that is always challenging, but we manage at the end of the day. The leave liability, like organisations with long-standing employees, people with longer periods of long service leave, we are aware of that and try to encourage people to take their leave.

CHAIR - How many employees will be due long service leave but have not taken it at the moment, in light of your comment earlier about longevity of your team?

Mr VOSS - There will be a number and I would have to come back to you on the number.

CHAIR - Over 50 per cent. That is going to be a challenge.

Mr VOSS - Yes.

Mr FERRALL - People don't necessarily take long service leave just because it is due. Long service leave does tend to build up in some cases. It is like you tick over a day and then people automatically -

CHAIR - I accept that, but you still have to deal with it at some stage.

Mr VALENTINE - It can be more expensive if they take it when they have just had a salary rise. That three months is going to be a lot more expensive than it was when it was due.

Mr FERRALL - It is an accruing liability for any organisation.

CHAIR - How much has your leave liability grown during that period? Do you have any idea about that?

Mr VOSS - I haven't got the numbers; I am happy to come back to you.

CHAIR - Was that a significant challenge with any of your team taking sick or personal leave during that period?

Mr VOSS - Not that I recall as we do not tend to have a lot of sick leave at TASCORP.

Mr FERRALL - From a Treasury point of view, during the pandemic our instances of sick leave went down, so people were less sick or took less sick leave, but our annual leave liability did increase. We are doing what all government departments are starting to look at: how do we get people off. From a Treasury point of view, I've asked as many people as possible to take an additional week at Christmas, to try to give people more of a break over that period. We will look branch by branch at how to let 'X' have an appropriate break over the next six to 12 months. It will be challenging, but it is important that people have their leave.

Mr GUTWEIN - Where it is particularly problematic, if you think about the nature of recreational leave, is that it's largely focused around the warmer months. We came through that. It wasn't until March that the pandemic hit, and then we have that four-month period to

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the end of the financial year. Whilst leave has increased, as Tony has indicated, the nature of Treasury is that those four months of the year are normally wrapped around Budget and 'end of years' and other matters as well. The challenge is for those people and staff who didn't take a reasonable period of recreational leave at the beginning of this year, and then have had no opportunity through the course of this year. I am very mindful of this.

Mr VOSS - Some employees didn't want to, either, because they couldn't go anywhere.

Mr VALENTINE - They couldn't do anything.

CHAIR - So they saved for when they could.

Mr VOSS - Everyone had planned their trip to wherever, and they had to cancel.

Ms WEBB - Couldn't they get a voucher and go somewhere in this state?

Mr VOSS - Possibly, yes.

CHAIR - You should ask them if they had been to the north-west or west coast or east coast.

Mr VOSS - It wasn't only because we were busy. It also wasn't fair to make people take leave through that period if they didn't want to, because they were quite restricted.

Mr GUTWEIN - Not that I would ever smile at someone else's misfortune, but I did raise an eyebrow when the Victorian voucher website crashed on its release, I think it was Friday. Theirs was a crash. Ours slowed, but theirs actually failed.

CHAIR - There are more people in Victoria.

Mr GUTWEIN - There are. At one time they had 800 000 people on their website.

CHAIR - Most systems would struggle with that. In terms of staff wellbeing, I note there is a comment on page 21 about executive remuneration guidelines. I note that the CEO, who is sitting at the table, was employed at a lower rate than his predecessor. Does this mean that his subordinates already on the payroll are notionally overpaid by the guidelines? It seems to me that the guidelines require a maximum.

Mr FERRALL - The CEO salary is a range. In fact, all CEOs of the GBEs and SOCs have a remuneration within a range. The current CEO started within the range, and there is opportunity to move within that range. The previous CEO was at the maximum of the range.

CHAIR - These were exceptions to the guidelines?

Mr FERRALL - There's a couple of tests in terms of subordinates to the CEO. In the situation we have now, where the CEO has a lower annual remuneration than the previous CEO, when you look at the 80 per cent test, we would have potentially failed that. Treasury is looking at that guideline, because it relates to the actual salary paid, whereas it probably should relate to the maximum of the band. Otherwise, over time, if you bring somebody off the bottom -

CHAIR - You end up falling outside your guidelines?

Mr FERRALL - You fail to meet the guidelines, simply because of paying the CEO a lower salary than the previous salary - whereas from a TASCORP perspective, we could have met the guideline by paying Anton more.

CHAIR - If the policy was within the range.

Mr GUTWEIN - The tables in the annual report only reflect a part-year of Mr Voss's salary.

CHAIR - I accept that. The note says quite clearly that he was appointed at a lower rate than the previous CEO. I am sure that does not mean he is of any lesser value than the previous one.

Mr FERRALL - Definitely of no lesser value.

Mr GUTWEIN - Of no lesser value, but you have to give people something to reach for.

CHAIR - Back to the client advances. The loan to Treasury and Finance, which we touched on earlier, is basically to support the Budget requirements. How is the interest rate on that determined?

Mr FERRALL - TASCORP goes to the market and issues bonds, and then on top of the actual rate from the market there is an administrative margin. That is how the rate is determined.

CHAIR - There are a variety of rates, I guess.

Mr FERRALL - Yes, and as the Treasurer indicated, the average is 1.28 per cent, but that is across a range.

CHAIR - Treasurer, we know from the forward Estimates that there are ongoing borrowings in the out years. Do you expect to finance the deficits the same way, through borrowings like this in the market, through TASCORP?

Mr GUTWEIN - We obviously have a not insignificant deficit forecast for this financial year, but then we do return to an operating surplus over two years. Importantly, in terms of an operating cash surplus, we return next financial year, albeit quite small. We are obviously borrowing to fund the infrastructure, as opposed to the operating costs of the Government moving forward. With our borrowings at a state level, I would like to be paying as little as we possibly can, and TASCORP will be looking to raise funds as competitively as it can in the market.

CHAIR - Which is uncertain, at best. Treasurer, that is all. I appreciate the efforts of your team. It is a very important part of our whole government structure, otherwise it would be really difficult to manage the current circumstances we are in.

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Mr GUTWEIN - Let me place on the record my thanks to Anton and his team, and Tony as the Chair of the board. We should underestimate the challenge that COVID-19 has provided for TASCORP and its new CEO. They have done exceptionally well. I place on the record my thanks for that.

CHAIR - They should be fit for anything after this.

Mr GUTWEIN - Match fit for anything. Thank you.

Mr VALENTINE - Have a merry Christmas.

Mr GUTWEIN - And merry Christmas to everyone.

The Committee suspended at 10.48 a.m.