



PARLIAMENT OF TASMANIA

TRANSCRIPT

HOUSE OF ASSEMBLY

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

Tasmanian Public Finance Corporation

Thursday 5 December 2024

MEMBERS

Mr Street MP (Chair);
Mr Behrakis MP (Deputy Chair);
Mr O'Byrne MP;
Mr Willie MP;
Mr Winter MP; and
Dr Woodruff MP

OTHER PARTICIPATING MEMBERS

Mr Bayley MP

WITNESSES IN ATTENDANCE

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

Heath Baker, Chief Executive Officer

Tony Ferrall, Chair

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The committee met at 2.00 p.m.

CHAIR (Mr Street) - The time being 2.00 p.m., scrutiny of the Tasmanian Public Finance Corporation will now begin. Time scheduled for scrutiny is one hour. Members will be familiar with the practise of seeking questions on notice, in that the Chair or minister has to agree to it and then it needs to be provided to the secretary. Only having one hour for scrutiny, minister, I'll invite you to introduce those at the table with you and then make a very brief opening statement.

Mr BARNETT - Thanks very much, Chair. Really appreciate the opportunity to be here today for scrutiny of government business.

With respect to TASCORP, on my left is Tony Farrall, Chair of TASCORP, for which I want to say on the record, thanks for the long service and terrific support to TASCORP and the State Government; and Heath Baker, the CEO of TASCORP. Its purpose is to develop, implement and manage borrowing and investment programs for the benefit of the people of Tasmania. Company has a strong performance and had the strong performance in 2024 financial year. It not only met but exceeded the majority of its financial and non-financial targets in the year.

TASCORP has continually provided sound funding and financial risk management services to the Tasmanian Government entities and TASCORP undertook the largest issuance of bonds into the debt capital markets in 2023/24 financial year. It successfully issued \$2.833 million of bonds and issued \$500 million in floating rate notes 2023/24. Company also wrote \$2939 million in new and refinance loans to support client borrowings requirements.

In terms of the profit, it was \$11.8 million above budget before tax at \$40.1 million. This profit, TASCORP's Treasury activity, contributed \$27 million and the Mersey Community Hospital Fund contributed \$13.1 million. TASCORP's return of \$118.1 million in tax and dividends to the state include the substantial dividend of \$96.1 million from the Mersey Community Hospital Fund, reflecting the positive financial impact of broad reaching support provided by the company.

I'd just like to take this opportunity to thank the board, the staff for their commitment and the professionalism during the year. With that, I certainly invite questions through you, Chair.

Mr WILLIE - Thank you, Chair. Treasurer, during Budget Estimates, we heard from the Treasury Secretary, Gary Swain, that Treasury was engaged in more detailed briefings with the credit rating agencies in the month of October. Just wondering whether TASCORP has had some feedback from those sessions and if so, what was said?

Mr BARNETT - Thank you very much for the question. That's correct. There were briefings with Treasury of both Moody and S&P in the month of October. I was part of those briefings for at least a time. In terms of S&P, they've responded as you would have seen publicly in the last week or two and we welcome that response. In terms of Moody's, we expect that in due course. I think between now and mid-January was the advice we've received. We can clarify that for you, but in terms of any consultation with TASCORP, I'll pass to the chair of TASCORP to respond to that part of your question.

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Mr FERRALL - Thank you, Treasurer. TASCORP participates in the presentations to the rating agencies, so I didn't personally, but Heath participates and presents effectively on behalf of TASCORP's component of the presentation to the rating agencies. So, we also deal with rating agencies separately depending on what we may be attempting to do going forward in terms of, you know, general communication but the relationship with the rating agencies is primarily managed by Treasury.

Mr WILLIE - And did I hear you say that you're expecting Moody's to provide an update between now and mid-January?

Mr BARNETT - That's my understanding. We've had a response from S&P, as you're aware, in the last couple of weeks that was put on the public record for which we welcome. And we expect Moody's will respond in due course in their normal timeframe. I stand to be corrected, I think it's between now and sometime mid-January, but we can clarify that for you and let you know.

Mr WILLIE - Do you take that on notice?

Mr BARNETT - Happy to clarify that timeframe for you and put it on notice and get back to you. Hopefully we'll be able to get back to you during the hour.

Mr WILLIE - Okay. In Moody's assessment earlier this year, they noted that the base case was that Tasmania will manage spending pressures and deliver a balanced net operating position by 2025/26. Given the government will no longer be delivering a balanced net operating position across the forward Estimates, does this put Tasmania's credit rating with Moody's at risk?

Mr BARNETT - Well, just going back one step, as I've indicated - you're talking about Moody's?

Mr WILLIE - Yes.

Mr BARNETT - Well, Moody's met with Treasury in October. They got their feedback. They asked lots of questions, is my understanding, and Treasury has responded. In terms of our net debt position, we believe it's manageable. We're going through a budget process now through to 29 May next year. Obviously, we've just had the 12 September budget, so we're now consulting on that, getting feedback. I'll take feedback in the usual way, obviously take advice across government, and we'll continue to manage the process in the normal way.

Mr WILLIE - In the Legislative Council hearing earlier this week, Treasurer, we heard that TASCORP intends to issue new debt of \$3.3 billion this year and again next year, and then \$2.5 billion a year thereafter, so around \$11.6 billion through to 2027-28. What is the weighted average interest rate on your current debt issued and projected interest rate in your base case for the \$11.6 billion of new issuance?

Mr BARNETT - Well, that may be a question for the chair of TASCORP. Of course, many of these questions are going to the budget and the budget process, which is well under way and is ongoing.

Mr WILLIE - This is about TASCORP issuing -

Mr BARNETT - If there's questions for TASCORP, more than happy to refer to the chair of TASCORP.

Mr FERRALL - We may need to take that on notice, in terms of - I don't believe we've got the weighted average cost of our total portfolio. But I think you need to understand that we deal with separate clients, and the weighted average cost of their debt will change for each client. Treasury would have a different weighted average cost to Hydro, as an example. We can calculate the total weighted average cost for our total portfolio, i.e. that all the issues that TASCORP have done on behalf of clients, but I don't believe we've got it. No, we haven't at hand. We can calculate that, but don't have it here for you.

Mr WILLIE - You can take it on notice, Treasurer?

Mr BARNETT - Yes.

Mr FERRALL - Yeah, we're happy to take it on notice. We can just calculate it.

Mr BAYLEY - The annual report is clear in relation to key limitations for TASCORP. Its cost of borrowings and access to debt capital markets depend on the state's credit rating, over which the corporation has no control. While S&P's credit rating stayed the same, it did downgrade the outlook from stable to negative. I'm interested in your perspective on this and what kind of scenario modelling you've done going forward in relation to some of the debt facilities that Mr Willie referred to. How are you dealing with this increasingly uncertain international credit rating situation?

Mr FERRALL - I think for context, you've got to start with the point that Tasmania has a high credit rating in any sort of international context, and so, although S&P have put a negative outlook revision against Tasmania's rating, it's not necessarily going to lead to significant, or even any, cost increases in relation to our debt.

As I said a moment ago, I think the first point you've got to start with is that even if there was a rating downgrade, it's not necessarily going to have a significant impact on the debt portfolio. There are a range of other factors which influence the cost of debt to the state. We look at those from a risk management point of view and we look at what might occur in a risk sense to TASCORP's portfolio, given certain changes. But we don't take a position in relation to trying to say whether a particular outcome is going to occur in relation to a rating.

Mr BAYLEY - Surely, you must do some scenario planning around that, though, and forecast different options, depending on where some of those ratings might land?

Mr FERRALL - The short answer is not really, because you can't do that in a simple scenario sense. I think what you're implying is that a lower rating, all other things being equal, should lead to a higher cost of debt. That is true generally, in terms of all things being equal.

Mr BAYLEY - That's effectively what your annual report says, is that not right?

Mr FERRALL - Yes, it is correct. But it's a question of all things being equal. Historically, we've had situations where Tasmania has had a rating change and TASCORP margin has not moved in sync with that change. It's because there are a whole range of factors

that investors look at when they're looking at effectively buying our bonds. We've got a very strong overlay domestically in this country of the strength of the national government, which impacts overseas investors particularly in terms of looking at TASCORP as a sub-sovereign.

We might have a very big issue in a particular period of time that we need to make. Investors might have limitations that they could hold in respect of, say, TASCORP or New South Wales' TCorp or any of the other sub-sovereigns in Australia. All of those factors start to influence what the margin is or the differential might be that we might pay, as opposed to another equally rated entity.

Mr WILLIE - As Mr Bayley said, the global cost of borrowing is rising and we've seen reports that Victoria's Treasury Corporation is confronting moving from an average interest rate of 2.4 per cent to closer to 5 per cent. Does TASCORP confront similar challenges? I understand the complexities you're talking about. I'm not asking for calculations here. Working assumptions that -

Mr FERRALL - The general trend is that the debt portfolio held by the general government is likely to cost more based on current yield curves going forward. I think that's as far as I could go in terms of the general position. What the differential will be over time, when we actually get to issue the debt as it rolls off, I can't speculate on that.

Mr WILLIE - Do you have some sort of working assumption that you have within the organisation?

Mr FERRALL - No.

Mr WILLIE - You don't? You don't do that sort of work?

Mr FERRALL - No. We manage the risks of the portfolio and we ensure that we're comfortable, that we've got capacity to access markets going forward, and we're quite comfortable we do have capacity to access markets. But in terms of predicting what the particular cost might be in the future, is not something we can do.

Treasury, obviously - and I won't speak for Treasury - manages their portfolio on the basis of what might occur in terms of particular interest rate changes going forward. I think Treasury may have even published something in the Budget in terms of the impact of potential changes in interest rates.

Mr WILLIE - That's why we're asking the questions, because we want to understand the impact to the budget.

Mr BAYLEY - Are you basically saying you'll cross that bridge when you get to it?

Mr FERRALL - Well, we would cross that bridge when we get to it. But, you know, you've got to understand that we have a relatively long portfolio. Individual changes or particular movements in the yield curve going forward don't necessarily have a one-to-one impact in terms of the cost of debt. Figuratively, we might have a seven-year portfolio rolling average, going forward, of X per cent. If rates moved, the whole portfolio is not going to go up by the movement in the rates. We're not refinancing at all. We manage our refinancing as much

as possible, we have a relatively long portfolio and we don't pick or choose, or guess what rates might be.

Mr WILLIE - Treasurer, the annual report shows a chart on page 8 indicating that TASCORP bonds were trading at around a 30 basis points lower yield than Victoria's in January 2024, but by the end of the financial year, at 30 June 2024, the spread had been reduced by around half, to 15 basis points. Doesn't this demonstrate that debt capital markets are pricing Tasmania's creditworthiness as relatively more risky?

Mr BARNETT - I think that it is best for the chair to respond to that. It's part of the annual report. I'm sure you'd be -

Mr FERRALL - I'll allow Heath to provide more detail. But the marginal spread between, in the domestic issue in Australia for the central borrowing authorities varies significantly over time and varies significantly between individual issuers. That can be because of a range of other factors. It doesn't necessarily mean, when you compare one issuer with another, that there's a perception of increased risk or anything else within that particular comparison. It could be a range of factors that have driven those changes.

Mr BAKER - The only comment that I would make is that we're starting to see the states trade in a more narrow range. Each state is seen very closely and similar at the moment. One of the impacts, obviously, was the amount of supply that Victoria TCV (Treasury Corporation of Victoria), which is the issuance of Victoria, started to put out through the COVID period. So, it was a matter of the amount of supply they were bringing to the market pushed their spreads wider. What we're seeing now is a convergence across the states to a more narrower trading range.

Mr WILLIE - Treasurer, can you provide more updated information on the data in this chart, which shows the yield spread from 30 June compared to Victoria and Queensland?

Mr BARNETT - I can just check with the chair or CEO in a moment but, in terms of our general government net debt, we're amongst the lowest in Australia. We're the third lowest, in fact.

Mr WILLIE - If you count the net liabilities, it's not looking so good.

Mr BARNETT - I'm only giving you the advice that I've had from Treasury. It's low compared to other jurisdictions. In fact, it's 8.4 per cent. Tasmania has the third lowest estimated general government net debt as a percentage of Gross State Product at 30 June 2024, so that's some months ago now. In terms of updated figures, I'll just check if the chair has any further advice.

Mr FERRALL - We can give you the spreads between any of the issuers and TASCORP over a period of time. If you tell us the period of time that you want, we can provide that.

Mr WILLIE - Yeah, from 30 June to now. It would be interesting to have a look at.

Mr FERRALL - It is very similar. We've seen the convergence amongst the major states. Probably the only outlier at the moment is Western Australia, which is obviously in a different economic situation than most of the other major states. We are trading broadly in line, slightly

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below some of the other states and slightly above some of the states, but depending on what part of the curve, and it does change from time to time. But we are seeing, as a general trend, a convergence in terms of risk and pricing of the states.

Mr BAYLEY - In the Legislative Council hearings on Tuesday, Mr Baker responded to questions about Macquarie Point Development Corporation borrowings that there's no borrowings at this stage, no formal requests for borrowings. I was surprised at that, given the Budget. It is clear in budget paper 1 that additional expenditure outside of the forward Estimates, admittedly a few years away, is anticipated to be met through short-term borrowings by the Macquarie Point Development Corporation. This is for the stadium project.

The Project of State Significance documents details a significant cost blowout at \$145 million that's unfunded at the moment, and the AFL deal locks Tasmanian taxpayers into every bit of cost blowout. It feels inevitable that Macquarie Point Development Corporation may come knocking. Have you had any informal engagement with Macquarie Point Development Corporation about those borrowings, any informal approaches?

Mr FERRALL - I personally haven't had any approaches from the corporation. I think on Tuesday Heath indicated that there'd been one meeting.

Mr BAKER - We've had introductory meetings with all the new statutory authorities that have been established over the last few years. Macquarie Point has been a client for quite a while, but there has been no formal request for borrowing requirements. Nor have they - yeah, that's probably all I can say at this -

Mr BAYLEY - What does being a client mean in the context of no borrowings then? Can you explain that?

Mr BAKER - Macquarie Point initially, some years ago, received a considerable amount of money from the federal government, so they can actually invest money with TASCORP. So, we assisted them looking through their options. We've had an ongoing relationship with Macquarie Point for quite a while, but never had any requests or imminent requirements for borrowings.

Mr BAYLEY - Do you anticipate that they will, or you have no read on what their intentions and needs are going to be into the future?

Mr FERRALL - It's a matter for them and the government in terms of how the development is ultimately funded and supported.

Mr BAYLEY - The budget does detail the fact that it'll be through borrowing, short-term borrowings.

Mr FERRALL - We will engage with the clients on the other side as they develop their proposals for borrowing. But at this stage, we haven't got a borrowing proposition from Macquarie Point.

Mr BAYLEY - After directing the Macquarie Point Development Corporation to pursue the stadium project, rewriting a development master plan and paying out some developers who had been contracted to deliver on that original development master plan, the then minister, now

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Treasurer, Mr Barnett, rewrote the ministerial statement of expectations, conspicuously dropping the requirements around commercial activities. This bit was dropped between 2022-2023 and 2023-24:

The minister expects the corporation to only carry out commercial activities that are:

1. Consistent with the Corporation's principles, objectives and functions.
2. Appropriately costed and carefully managed, with the objective that, in the absence of a higher priority, the activities deliver a commercial return acceptable to the board.
3. Compliant with the government's competitive neutrality principles.

It hasn't been updated yet, there is no new statement of ministerial expectations.

Chair, if Macquarie Point Development Corporation did come knocking, looking for funding, would you be concerned, given that the government no longer expects that their commercial activities be appropriately costed and carefully managed? Should there not be a ministerial expectation that their work be appropriately costed and carefully managed? Would that be something you would take into consideration?

Mr FERRALL - I don't think I can address the statement of expectations for another corporation. I think that would be quite inappropriate for me to make comments about that.

In terms of TASCORP's position in terms of potential lending, we would treat Macquarie Point Development Corporation like any of our other clients in that what we would expect is a satisfactory and sort of robust business case that supports the borrowing. We'd look at their capacity to borrow, we'd look at whether we believe they can meet the repayments, we look at their revenues, we look at their expenditures. Then we make an assessment as to lending to them or otherwise in a supported or unsupported basis going forward.

But in terms of a change in their statement of expectation, I think that's a matter for the corporation and a matter for the minister.

Mr WILLIE - Earlier in the conversation, you were saying that a ratings downgrade might not change the cost of servicing debt if the market's - sorry, you said a rating downgrade might not have an immediate impact. But it is true to say that, potentially, the market could downgrade the debt prior to that call being made.

Mr FERRALL - Correct. I mean, you do find sometimes rating changes or changes in perception of risk might be pre-empted by market participants. I mean, people who are buying bonds don't necessarily just sit there and wait to see what happens with a rating position. I can give a sort of example from a TASCORP perspective. If we're an investor and we see an entity which might be potentially going to be downgraded, we would be reviewing that prior to the downgrade occurring and that might change our investment or participation with that particular client on the other side, or reinvestment.

Mr WILLIE - So, the S&P statement to downgrade the outlook from stable to negative is significant, then. It would be having an impact in markets already.

Mr FERRALL - Well, I don't think I could necessarily agree that it is having an impact in markets already. The fact is that they've put a negative outlook on the rating. That's different - using the words of S&P, it reflects their view that fiscal controls are loosening and that's leading to weaker financial outcomes and rising debt. From a market perspective, there may be no change in terms of whether individual purchasers on the other side have made a decision that they won't buy TASCORP bonds at a particular price.

Mr WILLIE - Treasurer, noting we are a sub-sovereign, so that does give some protection, but S&P analysis shows that tax-supported debt was rising from \$10 billion from June 2024 to \$15.4 billion by 2027 June. Do you see any concerns that the issuance of debt is likely to be less attractive?

Mr BARNETT - I refer to my earlier answer, where I think clearly that is a concern in terms of the debt but what is noted is that it's manageable. We've gone through a budget process. The Budget's made it very clear in terms of that pathway to a surplus, which is very important to note and acknowledge. It does note that the debt is manageable. I've noted that in terms of general government sector debt, we're amongst the lowest in Australia per capita for gross state product.

We're going through a process now for the next budget, which will be on 29 May. I'm working on this already, I take it very seriously, and in terms of getting advice from TASCORP and Treasury and other parts of government, I take that very seriously as well and I look forward to getting that advice over the coming weeks and months.

Mr WILLIE - Treasurer, they said that your fiscal strategy was unambitious and that you weren't meeting it. They said things like, 'there's a waning quality of financial management', 'looser debt controls'. It does make it harder to market, doesn't it?

Mr BARNETT - The fiscal strategy is very important. It's a 10-year fiscal strategy. It has different parts to it, different criteria, different KPIs. It's not a one-year strategy and I wouldn't want anyone to expect it to be considered in that way. It's a very robust framework to guide budget sustainability over the next 10 years, and in fact it was partly praised, indeed, by Moody's Investors Services following last year's budget. In terms of the 2024-25 Budget, it's been developed with a view to returning the budget to a balanced budget by 2028-29, and then a net operating surplus by 2029-30, as I mentioned earlier.

Having that pathway to surplus and then ongoing, I think that's clearly where we want to go but there are challenging circumstances and this is not unusual across Australia. You made reference to Victoria earlier and their debt is way more significant than Tasmania, particularly on a per capita basis and percentage of gross state product.

All jurisdictions have those headwinds when it comes to interest rates. Of course, Canberra is responsible for those interest rates and that's something I've raised with the federal Treasurer, and I know my counterparts, likewise, continue to raise those challenges with the federal Treasurer in Canberra.

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Mr WILLIE - Does it concern you, Treasurer, that markets would be watching the government's behaviour? There's apparently no appetite for budget repair, you haven't been able to outline any measures you're taking. Since the Budget was passed the government has spent close to \$300 million that's not budgeted for. That's what markets are seeing. It makes the debt harder to sell.

Mr BARNETT - Well, we've worked very hard on implementing the Budget and the budget strategy. As I say, I'm going through a process now; I take it very seriously. I met with both agencies, S&P and Moody's, when they were here. They met with Treasury and got that feedback. I welcome the response from S&P. I can give you an update on that timeframe of Moody's coming back. I am advised by Treasury that it is a clearly a matter for Moody's, but the expectation is that will be delivered by the end of January, not mid-January. That is probably an update to that earlier question, if I can get that on the record now, Chair. It is a matter for them as to exactly when they deliver that response.

I don't agree with the characterisation of your question. We take it very seriously and the fiscal strategy is of importance over a 10-year period. We are going very carefully and methodically through the budget process which will be delivered on 29 May next year.

Mr WILLIE - The government looks like it has lost financial discipline, Treasurer. You passed the Budget only a couple of months ago and you're already spending significant unbudgeted amounts and markets would be watching that.

Mr BARNETT - We're very focused on the things that matter. That's all part of implementing our 2030 Strong Plan for Tasmania's Future. The cost of living, obviously, is a top priority and delivering on our health, education and housing commitments are all very important. If there are any of those initiatives that you don't support, please let us know. In terms of remaining focused on the things that matter, that's what we're on about as a government, but doing that in a very fiscally responsible and budget-minded context.

Mr BAYLEY - Chair, I will return to that statement of ministerial expectations. I am not asking you necessarily to comment on it in the context of why or why not the minister may have written that out of the statement of ministerial expectations. I am asking whether TASCORP would take into account the fact that the government no longer has those expectations of that corporation in any considerations of debt. I look at the Tasmanian Planning Commission and some additional information they have requested of the proponent that goes, I think, to this very issue. They've asked for the proponent to provide more information to include debt servicing costs -

CHAIR - Mr Bayley, you have to ask the question.

Mr BAYLEY - The question is why wouldn't the fact that the government no longer has this expectation for the business, Macquarie Point Development Corporation, to appropriately cost and carefully manage its commercial activities be a consideration of TASCORP in any loan application?

Mr FERRALL - If you can give you an example of how we look at a loan application, essentially, TASCORP looks at the forward cash flows, prospective cash flows, of the business to establish whether the business can support the debt. We also have in most cases a statutory guarantee from the state of Tasmania, effectively from the Treasurer, in relation to that debt.

We satisfy ourselves as TASCORP, as a corporation, that the entity can support the debt, so regardless of what might be in that statement of expectations, we would look at the sources of funding for Macquarie Point, the revenues that it may or may not have going forward and whether that can support the level of debt - hypothetically, because we don't have a request yet - that is requested.

We might look through that statement of expectations in that it won't have a bearing in terms of what we would look for to ensure that we undertake our role appropriately as TASCORP and as a lender to the entity.

Mr BAYLEY - How does TASCORP look at this, then, in the context of the proposition that the stadium would be transferred to Stadiums Tasmania, and as I understand it from the Budget, the POSS documentation would be transferred to Stadiums Tasmania as well? How would you make an assessment of the Macquarie Point Development Corporation's application, given that ultimately that asset and the debt liability would be transferred to another entity altogether?

Mr FERRALL - We would look at something like that in terms of what that implies or means for the risks to TASCORP? I'm not trying to be difficult but it's a bit hypothetical because we don't have a borrowing request at this point and we don't have the relevant facts in terms of what the intention might be going forward. When that is available, we would look at that and consider whether that creates risks to TASCORP as a lender.

Mr BAYLEY - Granted you don't have it before you at the moment.

CHAIR - We'll go back to Mr Willie.

Mr WILLIE - Treasurer, you spoke in your previous answer about the importance of being able to fund education and health and those sorts of things, and nobody's disagreeing with that, but if you don't manage the budget well, you won't be able to do that to a satisfactory level. What areas of the fiscal strategy are you breaching?

Mr BARNETT - We've had a response from S&P and Moody's, and Moody's will be responded - my advice is by the end of January. I welcome the S&P response. The AA+ rating for Tasmania is positive. It's similar to, or in fact, better than, some other jurisdictions.

In terms of our fiscal strategy over the 10 years, it's a very important part of our government's strategy to grow the economy, create more jobs and ensure that we're responsible in the way we manage our money. Obviously, we're going through a budget process, and there are reports on a quarterly basis, which you'd be aware of, in terms of reporting of updated financial figures. The next one is very important in terms of the revised Estimates report in mid-February, and then of course 29 May when the budget's delivered, so we'll have more to say in due course.

Obviously, MYEFO (Mid-Year Economic and Fiscal Outlook) comes out, which is the federal government response, in the not-too-distant future, and that's a matter for Canberra and the federal Labor government.

Mr WILLIE - But you do agree the fiscal strategy is in breach? Your unambitious fiscal strategy.

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CHAIR - I've given a fair bit of latitude, but that's a question for Treasury Estimates, not for the -

Mr WILLIE - No, it will impact - the credit agencies are talking about this, Chair.

Mr BARNETT - Well, I made the point a little bit earlier that it's not a one-year strategy; it's a 10-year strategy. We take it very seriously, and there are 10-year targets, not one-year targets. We're working to that 10-year time frame. Part of that plan is getting to a net operating surplus by 2029-30, and then continuing the good work that I expect our government to implement over that period. It's very important that we remain responsible, and that will continue.

Mr WILLIE - You keep talking about this net operating surplus in 2029-30. Can you table the pathway to that net operating surplus?

Mr BARNETT - I can refer you to the Budget on 12 September.

Mr WILLIE - There's no pathway in the Budget, Treasurer.

Mr BARNETT - In terms of the Budget, it's referred to in the papers, specifically in terms of the pathway to a surplus. The former treasurer, Michael Ferguson, who I commend and thank for his hard work and diligence in this space - and I'm really looking forward to delivering on the next budget next year. We're doing a lot of work already behind the scenes with Treasury, my department, and others across government, through budget committee meetings and the like. We take it very seriously. I'm looking forward to delivering on that next May.

Mr WILLIE - There's no pathway to a net operating surplus in the Budget, Treasurer. I'm asking you to table it, because you keep saying it. If you've got Treasury projections out to 2029-30 that show that, you could table that.

Mr BARNETT - You are aware of the budget process. I know you're aware of how that works. It's over a four-year period. The forward Estimates are very clear; they're all set out in the budget itself on 12 September. I'll have more to say on 29 May. There will be a revised Estimates report in February.

We take all this very seriously. As a government we've made a commitment to deliver a pathway to a surplus by 2029-30. That's my commitment. I remain committed to that, as set out by the former treasurer on 12 September, and by the Premier and by others since that time.

Mr WILLIE - Even if we -

CHAIR - Mr Willie, I'm going to move on to Mr Bayley.

Mr BAYLEY - I'm not going to labour this, but I do have one more line of questioning around the statement of ministerial expectations and the Macquarie Point Development Corporation. The question really goes to whether or not the Treasurer can direct you to provide finance. Other government businesses can be directed to enter into onerous contracts, for

example, and onerous commercial arrangements. The early financial projections around the stadium project is that it's a loss-maker over a 20-year period.

Going back to the issue of the statement of ministerial expectations, the lack of information in the POSS planning documentation and the fact the Planning Commission had to come back and ask for more of this financial information - if you were not satisfied, based on all of the calculations and the assessments that you've talked about before, of the capacity of the business to support the debt, can you be directed, and how does the board deal with that situation?

Mr FERRALL - Well, we haven't been directed. Again, it's hypothetical in one sense, but it's also - there are limitations around what directions can be given, particularly for a government business enterprise, so there are limitations in a Treasurer's power to effectively direct TASCORP to lend. We will or would continue to meet our legislative requirements in terms of ensuring that we take appropriate steps in terms of lending, that we don't expose the state or TASCORP to excessive risks, et cetera. Again, I'm not trying to avoid the question. I understand what you're trying to ask, but the circumstances where a Treasurer may feel that he or she wants to direct TASCORP, I think would be exceptionally limited and there are quite limited -

Mr BAYLEY - What would they be limited to, do you think?

Mr FERRALL - Well, they're limited because the GBE Act in general doesn't provide provision for the Treasurer to direct a GBE.

Mr BAYLEY - So, Hydro, for example, can be directed to enter into an onerous contract with a power generator.

Mr WILLIE - Other shareholder ministers can issue directions.

Mr FERRALL - If you look at the restrictions in the GBE Act and you look at the TASCORP Act, then, you know, it's quite limited.

Mr BAYLEY - I guess that's what I'm asking. You said there're limitations. So, what would be the limited situations then? It doesn't preclude it - limited to -

Mr FERRALL - I mean, ultimately, we'd need to take, you know, SG advice if it got to that point, in terms of, you know, whether the direction ultimately was lawful, but my understanding is that the Treasurer of the day could not currently direct TASCORP to lend. Just to clarify that, there are other provisions in the act which might enable the treasurer of the day to have task or take over a particular debt which is different to a direction to lend in circumstances when TASCORP did not want to lend.

Mr WILLIE - Treasurer, have you informed TASCORP when you intend to meet the fiscal strategy?

Mr BARNETT - I've had a number of meetings with TASCORP and, I mean, the chair can answer for himself, but we've talked more generally about the budget, the budget process and the importance of our fiscal strategy. What's your specific question?

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Mr WILLIE - The question is, have you informed TASCORP when you intend to meet the fiscal strategy?

Mr BARNETT - Well, the fiscal strategy, as I say, is a 10-year strategy and it's made up of many parts. It's not a one-year strategy. So, it's an ongoing consideration and initiative of our government and that will remain and continue. I'm going through a budget process now. We'll have more to say, obviously, in February and then, of course, in May next year.

Mr WILLIE - Treasurer, do you know when general government debt will peak? Have you been able to inform TASCORP of that?

Mr BARNETT - Well, I think you've asked this question before in parliament and in other places.

Mr WILLIE - I can't get a decent answer out of any government member.

Mr BARNETT - Well, you're getting to the habit of asking hypothetical questions.

Mr WILLIE - That's a scary thought.

Mr BARNETT - But I've made it clear that we've got a pathway to surplus, whether you agree with that or not -

Mr WILLIE - I've seen no proof of it.

Mr BARNETT - We do agree with it. That is government policy and you'll - I can give an expectation that you'll see that again in the May budget next year when I deliver that on 29 May and will provide further update at the time with respect to our fiscal strategy and our plans to a pathway to surplus and going forward under that 10-year plan and then pass that as well. Obviously, those projections will be made clear next year in the budget process and when we have them available.

Mr WILLIE - Treasurer, even if I'm generous and I'll give you the 29/30 net operating surplus, do you accept that that doesn't necessarily stabilise the debt and you will need a cash surplus to do that?

Mr BARNETT - I certainly accept that.

Mr BAYLEY - Treasurer, as the minister, you were the one that wrote out this section of expectations around commercial activities. You dropped the expectation that the corporation operate consistent with principles, objectives and functions and that it undertake commercial activities that are appropriately costed and carefully managed, with the objective that in the absence of a higher priority, the activities deliver a commercial return acceptable to the board, and also that the corporation comply with the government's own competitive neutrality principles. Can you recall why you dropped those from the statement of expectations?

Mr BARNETT - The first thing to say to cover off your earlier question, and indeed this one, is that the Macquarie Point Development Corporation has to act within the law. There's the *Macquarie Point Development Corporation Act*. In terms of borrowing - and I know you've asked the chair a number of questions about this - they must act in accordance with the

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legislation. Set out in the legislation is that the corporation must not borrow or otherwise obtain financial accommodation from another person under subsection (1) without the written approval of the Treasurer. That is set out in the legislation and it's specific. It's not in the GBE Act. I'm clarifying for the record.

Mr BAYLEY - That doesn't explain why you would write out the expectation that it only carries out commercial activities that are appropriately costed and carefully managed, though. Do you recall why you did that?

Mr BARNETT - There are certain assumptions you're making about what's in the mind of the relevant minister.

Mr BAYLEY - I'm asking, I'm not assuming.

Mr BARNETT - I'm responding as the Treasurer.

CHAIR - Mr Bayley, I've given you a fair bit of latitude, but you're now asking the Treasurer to reflect on actions he took as a minister in a previous portfolio rather than asking questions about the Public Finance Corporation.

Mr BAYLEY - Can I ask, then, would you rule out directing TASCORP to lend to the Macquarie Point Development Corporation for the stadium project, should the board come to the conclusion that loan was not wise? Would you rule that out?

Mr BARNETT - Mr Bayley, we're asking hypothetical questions. I have a lot of confidence in TASCORP and the people on my left, the chair, the board and the CEO. I've got to know them in the less than two months I've had in the role as Treasurer and I have confidence in them. I will take their advice and I will take advice from Treasury before I make any decision with respect to such an important matter that you refer to.

Mr BAYLEY - To be clear, I don't lack confidence in them either. That's why the question is directed at you about whether you would direct them to do something that's contrary to their own advice and finding.

Mr FERRALL - Section 12 of the TASCORP Act limits the functions and powers of TASCORP and in performing and exercising its functions and powers in meeting its objectives under this or any other act, the corporation must have due regard to the appropriate levels of financial risk. We operate on the basis of our legislative framework. The hypothetical circumstance you have raised where the Treasurer directs potentially TASCORP would be limited by section 12 because the corporation must have due regard to appropriate levels of financial risk. There's no out from that, there's no exemption. From TASCORP's perspective and TASCORP's board's perspective we would seek advice on the particular direction that may or may not have occurred and if the powers in our act limit us from complying with that so-called direction, then we wouldn't. We will follow the law and follow our legislative framework. It is purely a hypothetical circumstance.

Mr BAYLEY - That's why the question is to the Treasurer as to whether the direction will be made. You're saying that section of the act would preclude you from complying with that direction?

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Mr FERRALL - It would appear so, but before we entertain even a hypothetical circumstance we've got to identify whether the circumstance can even occur which, in my view, it probably can't. I would need SG advice on that to fully understand the likely ramifications.

Mr BAYLEY - Stranger things have happened. I asked the question because, yes, it's a hypothetical, but on the evidence that's in front of us in the public domain at the moment, it's a likely and potential scenario that you are presented with an application for borrowings from a government entity that doesn't stack up. It's a likely situation. We can leave it there. Happy to move on, Chair.

Mr WILLIE - I'll jump in here because, unlike you, I want to see the government deliver the project according to their promises, which is \$375 million of state government funding and not a red cent more. There is a scenario where this could happen because the state government is effectively a guarantor of Macquarie Point Development Corporation, so a lot of the risk is not there.

Mr BARNETT - What's your question?

Mr WILLIE - Would TASCORP make those sorts of assessments in an application?

Mr BARNETT - I have already made the point that as Treasurer I'll be taking advice from TASCORP and I will take it from Treasury. I won't be instructing TASCORP to be acting illegally or in contravention of the law, I can absolutely assure you of that. The chair has already made it clear they have certain terms and conditions under which they operate in accordance with the law and you should have every expectation that we will act accordingly.

Mr WILLIE - Yes, but there's a cynicism within the Tasmanian community, Treasurer, that the government can't deliver on its promise of \$375 million and not a red cent more and it will look at creative ways of hiding the funding and this is one scenario that could play out. That's where the questions are coming from.

Mr BARNETT - You've made reference to one scenario that could play out. Of course Labor have backflipped, a massive Olympic standard backflip.

Mr WILLIE - You can't talk about backflips in recent times; you've done one with a double pike.

Mr BARNETT - You've backflipped massively so there is cynicism in the community about state Labor as well.

CHAIR - I feel like you have run out of questions but if you want to keep going?

Mr WILLIE - No, I've got other questions.

CHAIR - Go for it.

Mr WILLIE - I will move to TT-Line. It has been revealed that TT-Line remains in breach of its master loan facility agreement and the conditions around that. How long can TT-Line remain in breach before TASCORP becomes concerned, Treasurer?

Mr BARNETT - Are you are asking me or asking the chair? I am happy to respond and then happy to refer to the chair. TT-Line will continue to take on increasing levels of debt to fund vessel replacement and port infrastructure. It does have a master loan facility agreement with TASCORP. The agreement covers a number of borrowing covenants the company must operate within, including the interest ratio limits, which went on the public record a couple of days ago and to which the chair and CEO responded. All master loan facility agreement covenants are closely monitored by TASCORP. I am advised that the TT-Line is not currently meeting its interest coverage ratio with this first being identified in June 2024. This was in the annual report so it has been on the public record for some time. It's not unusual to fall outside the interest coverage ratio, particularly where a business is undertaking such a significant capital investment. In terms of the details and terms and conditions around that, it's best to pass to the chair and/or the CEO.

Mr FERRALL - Your question?

Mr WILLIE - My question is how long can they remain in breach before TASCORP becomes concerned and there is a consequence for being in breach? They've obviously got a number of matters to -

Mr FERRALL - The answer is it can't be indefinite. The metrics of the breach were identified from the original business case. Quite obviously, in the current environment TT-Line is in, some of those parameters have changed, which is ultimately what sort of led to the breach of the ratio. It is an early warning for TASCORP that basically, TT-Line is not operating in a manner consistent with its original business case, therefore from TASCORP's perspective, we have taken a decision that we will undertake a review of TT-Line's finances. Again, to be clear, we do that for all entities on an annual basis, but this particular trigger has given rise to the board deciding that we would ensure that review is done as quickly as possible and that's what we're doing.

From a lending perspective, provided TT-Line meets all of the requirements of the loan, in terms of meeting the interest cost, et cetera, even if there was a breach, it could theoretically go on forever, because from TASCORP's perspective, as long as we're getting the cash flows that we require from the lending, i.e. they're meeting their requirements, then the breach itself becomes a little bit irrelevant if we're getting all those things. But you've got to put in the context of it is one of a number of early warning things that we put in place. We put in place, in all of the MLFAs, different triggers, effectively, where we as a lender want - would potentially, or as a board - would want management in TASCORP to highlight to us that particular circumstances have arisen, and that's what's occurred.

Mr WILLIE - Treasurer, some of these things could remain unresolved for a couple of years. It sounds like that's acceptable to TASCORP. I mean, there's leasing on the table that we've heard this morning is potentially unlikely. You've got the Devonport port upgrade that hasn't been completed yet, and anything could happen there. It may be some time before TT-Line resolves this situation.

Mr BARNETT - Yes, thank you. I'm not sure if that's a question, but I'll take it as a question. The government's expectation is that TASCORP has an ongoing close relationship with all of its clients, including TT-Line. I think the chair's outlined exactly. That's why they've been undertaking a review for which that reference is made, and there's an annual review for every government business enterprise. I should just note that the GBE reform process is very

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important to the government. That's why that's well under way, and all the feedback is that it's very positively received by business. We are backing business to the hilt. We're about growing the economy, creating more jobs. In terms of how TASCORP respond to TT-Line, I'm more than happy for the chair to respond.

Mr FERRALL - Look, for clarity, we will continue to work with TT-Line. We recognise that TT-Line has a range of circumstances now that is creating differences to when they originally put forward loan propositions to TASCORP. They are servicing their loans and we don't have any expectation they won't be able to in the short to medium term.

What we will be looking for is a position from TT-Line in terms of revised financial forecast, when they're able to provide those to TASCORP. We as a board will then review those and test them, and form a decision from a board perspective as to what the relevant risk is of TASCORP lending to TT-Line.

That could lead to a range of things happening, which could be a change in the terms of the loan; there could be an extension in timeframe. Again, you need to put it in the context that the original business plan from TT-Line was very strong, and it also had, under that plan, significant capacity to retire the debt relatively quickly.

Mr WILLIE - With the sale of the existing ships? Yes.

Mr FERRALL - Now, some of those circumstances have changed from that business plan, which is what we're looking at. We will advise appropriately when we get to that point, but we don't have it to look at now.

Mr BAYLEY - Government businesses - Forestry Tasmania, trading as Sustainable Timber Tasmania, Tasracing - have got access to debt facilities with TASCORP. Have they got any borrowings at the moment, as it stands?

Mr FERRALL - Sustainable Timber, as of 29 November, didn't. Was it Tasracing?

Mr BAYLEY - Tasracing.

Mr FERRALL - Tasracing has a facility limit of 18.7 and it had an exposure of 4.5, as at that the same date.

Mr BAYLEY - \$4.5 million? Have either of those two GBEs recently approached TASCORP for additional funding or additional loans?

Mr FERRALL - No formal request, no. Nothing.

Mr BAYLEY - In your annual report, it details that 89.5 per cent of total advances are guaranteed by the state. That's down from 96.5 last year.

CHAIR - The time being 3.00 p.m., the time for scrutiny has expired. I thank those in attendance.

The witnesses withdrew.

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The committee suspended at 3.00 p.m.