



# **PARLIAMENT OF TASMANIA**

## **TRANSCRIPT**

### **LEGISLATIVE COUNCIL**

### **GOVERNMENT BUSINESS SCRUTINY COMMITTEE A**

**Tasmanian Public Finance Corporation**

**Tuesday 29 November 2022**

### **MEMBERS**

Hon Nick Duigan MLC  
Hon Luke Edmunds MLC  
Hon Ruth Forrest MLC (Chair)  
Hon Mike Gaffney MLC  
Hon Dean Harriss MLC  
Hon Sarah Lovell MLC (Deputy Chair)



## **WITNESSES IN ATTENDANCE**

**Hon. Michael Ferguson MP**, Deputy Premier, Treasurer, Minister for Infrastructure and Transport and Minister for Planning (via Webex)

**Mr Tony Ferrall**, Chairman

**Mr Heath Baker**, Chief Executive Officer

**Mr Ignacio Welch**, Chief Financial Officer

**Ms Emma Breward**, Senior Manager Corporate Services & Governance



# PUBLIC

**The committee met at 9 a.m.**

**CHAIR** - Welcome, Treasurer, online again today, and welcome to your team at the table and those others behind who may come to the table to assist if needed. This is the scrutiny of TASCORP and we're here from 9.00 a.m. until around 11.00 a.m. for that purpose. Could you introduce your team at the table, or they can introduce themselves if you think that's easier; and then handover to you to make some opening comments? Then your Chair or CEO might also wish to make some comments.

**Mr FERGUSON** - Thank you, Chair, and good morning to you and your committee member colleagues. I introduce to the committee the Chair of Tasmanian Public Finance Corporation (TASCORP), Tony Ferrall and also Chief Executive Officer, Heath Baker. I will make a short opening statement for you.

2021-22 for TASCORP can best be described as another year of volatility in global economies and financial markets. This originally stemmed from the effects of the pandemic, but that was quickly overshadowed by the re-emergence of inflation and the war in the Ukraine.

While there were periods of financial market stress, demand for TASCORP bonds remained strong and TASCORP successfully issued \$1.1 billion of bonds to support the Government and Government businesses borrowing requirements.

The Government continues to unconditionally and irrevocably guarantee the majority of TASCORP's client loans. This guarantee was established due to the widespread impact of COVID-19 on TASCORP clients' revenues and expenses and to ensure clients had timely access to funds from TASCORP if required.

In the financial year, TASCORP ensured ample liquidity was available to clients to meet cash demands and TASCORP's own financial commitments. Ensuring there's ample cash available for clients when needed is a key TASCORP focus during times of financial market stress.

During the year, TASCORP met or exceeded all but one of the financial and non-financial targets set out in its statement of corporate intent, which primarily reflects the high credit quality of its assets and liabilities and low-risk approach to hedging. The one target not met - the Mersey Community Hospital Fund net profit after tax - does not, however, affect the ongoing dividend distribution from the fund. Also, during the financial year, TASCORP returned to the state total tax and dividends of \$102.1 million. This included \$12.5 million tax and dividend from Treasury activity, and \$89.6 million from the Mersey Community Hospital Fund.

I take this opportunity in closing my opening remarks to thank the board and staff for their commitment and professionalism during yet another challenging year in the financial sector. Happy to pass to the Chair, who may wish to make any other opening remarks. Thank you, Chair.

**Mr FERRALL** - Thank you, Treasurer. I don't think I need to make any further opening remarks. Again, I'd like to put on record the thanks of the board and myself of the staff of TASCORP, because although it has been a challenging year, it's a small group of staff who work tirelessly to do the things they do on a day-to-day basis.

## PUBLIC

**Madam CHAIR** - Sure. I've a number of questions here, Treasurer, or whoever you want to delegate to respond, in terms of the state's credit rating and the cost of borrowings and access to debt. Page 4 of your annual report says:

TASCORP's cost of borrowing, and its access to debt capital markets, depends on the State's credit rating over which the corporation has no control.

Could you tell the committee a little bit more about the state's credit rating? I'll run through a series of questions, but we might have to come back to them individually. I'm interested in who initiates the review of the credit rating, and what role does Treasury and Finance, TASCORP and the rating agencies play in all of that? Who gives the instructions and who pays? When was the last review was done and how much did that cost and how often are they done? What has been the effect on the increased general Government borrowings on the ratings, which we'll get to a little bit further on? That's the broad range of my questions. Do you want to address them one at a time?

**Mr FERGUSON** - Chair, I might suggest, given the nature of my and everyone's attendance today, I'm very comfortable with you directing questions where you feel they're best responded to. I'll ask the Chair and the CEO, Tony and Heath, to respond and take your questions step by step. However, from the outset, I can indicate that we've had normal level engagement with the major global credit rating agencies, Standard & Poor's and Moody's, both of which have reconfirmed Tasmania's credit rating with stable outlook. In the case of Standard & Poor's, that was AA+ and in the case of Moody's, AA2, which was a maintenance of our current arrangements with stable outlook secured in both cases. I'll invite the subject experts to respond in more detail and to take your other individual questions line-by-line.

**Mr FERRALL** - Okay, thank you Treasurer. I will start, and ask Heath to follow up with some detail if necessary.

For the ratings purpose, TASCORP and the state are considered as one. They are considered jointly. As the Treasurer indicated, Standard & Poors rates us at AA+ and Moody's at AA2. S&P and Moody's consider TASCORP, and consider TASCORP's risk and liquidity management practices, so the rating process is quite a comprehensive process. Treasury leads the process and TASCORP attends on the day we present to the rating agencies. Prior to the presentation to rating agencies, a comprehensive survey is provided by each of the rating agencies, and they request detailed information which again, Treasury liaises with TASCORP to provide the information.

The rating meetings generally occur a little bit after the budget is released, in timing. They tend to occur in that sort of time frame. They try to go pretty close to the budget, but they also, each of the rating agencies tries to do their state visits together across all states. They try and do them all -

**CHAIR** - So annually?

**Mr FERRALL** - Yes, they do it annually. They try and do it within a fairly tight period of time after the release of state budgets.

**CHAIR** - Was that impacted by the delay in our budget, the last couple of times?

**Mr FERRALL** - They also can release market updates as well through them. If there are things like a delay in a budget, they can potentially release a market update. Their role is to keep the market informed of their views.

The S&P issued a market update for Tasmania in September 2022. No rating action was taken as part of that update. S&P had previously affirmed Tasmania's AA+ rating in November 2021. They released a market update in September 2022. Moody's announced completion of its periodic review of the rating on 8 August 2022, and that affirmed the rating at AA2 and a stable outlook.

I think you asked the approximate cost?

**CHAIR** - Yes.

**Mr FERRALL** - It is about 100...

**Mr BAKER** - No, look, I could not tell you off-hand.

**Mr FERRALL** - We will see we can get those.

**CHAIR** - All right, see if you can get it. If not, we can write around that one.

**Mr BAKER** - In round numbers, S&P is around \$150 000 and Moody's is around \$130 000 a year to conduct the review.

**CHAIR** - Do you want to clarify that, or is that...?

**Mr FERRALL** - - I will confirm the actual number.

**Mr BAKER** - We can confirm the exact number if you...

**CHAIR** - It would just be helpful to have that, yes. Does TASCORP or Treasury pay for that? TASCORP pays, okay.

I assume from what you have said, the review is initiated by the rating agencies, not by Treasury or -?

**Mr FERRALL** - I might just clarify that a little bit. There are effectively three major rating agencies. You have Moody's, you have S&P, and Fitch Ratings. And where, say Tasmania is rated by two of the rating agencies. Some of the other jurisdictions are rated by Fitch as well. Is New South Wales rated by all three?

**Mr BAKER** - New South Wales, Queensland, and South Australia use Fitch as well, use the three.

**Mr FERRALL** - We only use the two rating agencies. We have been rated, the state has been rated for a long time, ever since it commenced debt issuance but it is the choice of the state, effectively, which rating agency to use, ultimately.

## PUBLIC

**CHAIR** - So the state then, or Treasury and Finance, I assume, is the one who initiates the review by the particular rating agency?

**Mr FERRALL** - We negotiate with them on the approximate time to do the annual review.

**CHAIR** - Okay. And they are done every year?

**Mr FERRALL** - Yes.

**CHAIR** - Yes, okay. You did mention market updates. Are they -?

**Mr FERRALL** - They periodically would release a market update if there are things that change, sometimes a rating agency will be doing a broad review of a particular aspect of state finances, not just in an individual state, but across the board and they might release a market update or make commentary around those.

**CHAIR** - Okay. The last question is to discuss whether there has been any effect on the increased general government borrowings, noting now the general government, effectively Treasury and Finance, who have the borrowings are the largest TASCORP customer now? Have they overtaken some of our energy entities? Has that had any effect on the ratings or the consideration of that? What is the outcome of that?

**Mr FERRALL** - No, it has not, there is certainly a focus of the rating agencies on our state borrowing and notably, the potential increase in borrowings overtime. The state of Tasmania is still a very strong credit, from a rating agency perspective. We do not see any immediate or likely impact of that in the short term. The rating agencies do make a comment about the prudent management of debt by the state overtime. If you have read either SMP or media's reports, they generally tend to make comment that the state tends to overachieve in terms of its financial position compared to the forward Estimates, which again, is seen as a positive from the rating agencies.

**CHAIR** - Does that suggest that you could further increase the general government borrowings without an impact or not?

**Mr FERRALL** - I think you would need to look more broadly than just the borrowing level. Ultimately, it is the ability of the state to support and service the level of borrowing rather than the absolute level. There are a range of factors rating agencies take into account in relation to their assessment of the rating. If the state has strength in its revenue gross, sufficient to support an increased borrowing, then there would be no impact of having an increased borrowing, but if there was a lesser revenue growth than was necessary to support the sort of borrowing you are talking about, then there could be an impact. We are very well placed within our rating at the moment, we are not at high risk in terms of having a rating downgrade.

**Mr FERGUSON** - If I might add to that, we had actually had the feedback from the ratings agencies and been able to share some of the content of those at the time when they were issued, in both cases, Moody's and SMP. They were not just looking at the current financial year of the budget, but also the forward Estimates, the future infrastructure plans and some of the mitigation strategies in place for managing risk and some of the revenue opportunities,

including GST and stability. It was overall taking into account all of those factors, including the future borrowing plans of the Government, particularly on infrastructure program.

**CHAIR** - We can see what impact in cutting your revenue stream has when you look at the UK under these Liz Truss's short prime-ministership. If anyone wants to follow up with anything, let me know. On page seven of your annual report - this is me being picky - in the term during the health pandemic, I do not believe there is other types of pandemic, it is the COVID-19 pandemic as opposed to health pandemic because all pandemics are health-related. Anyway, it says;

During the health pandemic, the Reserve Bank of Australia, RBA, used twin controls of record low cash rates and extensive government bond purchase program to provide support for the Australian economy by keeping financing costs at extremely low levels. This program led to a significant expansion of the RBA's balance sheet which, at its conclusion on 10 February, 2022, included \$923 million of securities issued by TASCORP.

My questions here, Treasurer, when I relate to these matters, the questions are; given that the RBA has been such an active buyer of TASCORP bonds one could ask, after discussing the credit rating agencies, what is the point of a credit rating? Aren't the prices determined by what the RBA are prepared to pay?

**Mr FERGUSON** - Lenders are certainly looking at Tasmania's credit rating when assessing the purchase of those issuances. I will invite Tony and Heath to respond in detail.

**Mr FERRALL** - You have to recognise the RBA made an unusual intervention into the market and that directly related to the COVID-19 pandemic. TASCORP is a large issuer to clients other than the RBA and will continue to do so. The rating does have an importance for that reason. We are not likely to see the RBA intervening in the same manner going forward.

**CHAIR** - Until another major disaster?

**Mr FERRALL** - Potentially. The RBA, in terms of TASCORP bonds, had relatively limited holdings of bonds. What we do not know is what has incurred in the secondary market when RBA may have sold those bonds.

**CHAIR** - That was my next question. You don't know whether RBA sold any of the bonds?

**Mr BAKER** - The RBA have indicated that they had no intention to sell any of the bonds, that their intention is to hold those through to maturity. They have not, at this stage, been sold back into the secondary market.

**CHAIR** - When it said that the RBA holds \$923 million worth of bonds, is that what they paid for them or is that their face value?

**Mr BAKER** - That is the face value of the bonds.

## PUBLIC

**CHAIR** - It is an interesting concept and I am trying to understand how this works, it is not my field of expertise as everyone around this room knows. To put a scenario to you, if TASCORP issues a bond and it raises \$100 million and then, say, the bank buys it, then the RBA steps into the market to drive down interest rates, which it did as part of its quantitative easing arrangements that have alluded to. Then the bank sells the newly-acquired bond for \$105 million as the interest rates for bond prices rise, if that is my correct understanding, so the bank has made a profit of \$5 million. I am asking that question because I was assuming that some of the bonds had been sold to the banks but you are saying they have not. Is that correct?

**Mr BAKER** - To the best of my knowledge and the advice that we have received from the RBA is it is not their intention to sell that portfolio of bonds.

**CHAIR** - They are just going to hold them?

**Mr BAKER** - The opposite has happened obviously with interest rates rising, the RBA are holding probably very large unrealised losses on these bonds at the moment because their value as interest rates have gone up their bond value has gone down. The RBA stepped into the market for two reasons and that was financial stability to ensure that both the government and the states could issue as and when required. Secondly, it was about ensuring the lowest cost of borrowing for both the states and the government during that period.

**CHAIR** - You may not be able to answer this, is that is the case with all state government bonds they bought?

**Mr BAKER** - Once again, to the best of my knowledge we have not seen any advice from the RBA that they have started. Obviously, this comes under quantitative easing, they are buying bonds. We have not seen anything that they are going to enter into quantitative tightening which would be the result of them selling bonds into the secondary market.

**CHAIR** - Will they make an announcement about that if they decide to do that?

**Mr BAKER** - Generally, yes.

**CHAIR** - The key things as mentioned by the Treasurer in his opening comments, the key things about the 2022 year for TASCORP is how interest rates have impacted and what the arrangements are with loans to the general government sector. Looking at the profit and loss on page 25, the figure that jumps out is the net loss to financial institutions of \$27.7 million. As I understand it, this is the net loss on financial assets investments including the Mersey Community Hospital Fund, which the Treasurer mentioned as well, plus loans to clients and on financial liabilities amounts that are owing to the bondholders et cetera. Note five on page 51 breaks this up, the \$27.7 million loss, so the three largest components, the cash and investments have been revalued downwards by \$56.4 million, and I guess this is part of the Mersey Hospital losses referred to on page nine. Is that correct?

**Mr FERRALL** - No. I will just get Ignacio Welch to come to the table.

**Mr FERGUSON** - So Chair, I did not introduce the other attendees in case they did not come to the table so may I introduce the committee to Ignacio Welch, Chief Financial Officer. I think some content here, Ignacio, will be useful in respect to the use of derivatives as well, to help round out the question.

**Mr WELCH** - Just before I answer any specific questions, Heath might have mentioned earlier that we entered into derivatives to hedge our exposures in terms of interest rate exposures which happens right across the Treasury side of the business. Where there is a disconnect and some asymmetric accounting is on the Mersey Community Hospital Fund where the investments are actually accrual accounted or amortised, but we still enter into derivatives to hedge our risk exposure there and they are market valued. So, there is not an offset in terms of accounting terms on a year to year basis, which has added to the loss here actually, there is no offset.

Maybe if I just say for the table very briefly, on that table on page 51, probably the first thing I will point out is the things you notice is that the (inaudible) at client advances is largely offset by the market value and unrealised gains on the benchmark bonds because this is where we hedge them with each other and where we might also use some derivatives there as well to hedge those off. Where that derivative loss of 25.3, approximately 50 per cent is to do with the derivatives that were used to hedge our Mersey Community Hospital Fund investments. There was a loss there, but there's not a compensating gain on the assets because we accrued them, not amortised them, and that's because of accounting standards. So that's where part of that disruption of the numbers has occurred.

**CHAIR** - So effectively like with the Mersey Community Hospital monies, effectively invested, I was always interested in how you were going to get the necessary interest rate to sustain that amount for 10 years, we will come to that in a moment. But if the investments were held to maturity the losses will gradually be recouped, is that the case, that's with the Mersey fund?

**Mr WELCH** - Yes.

**CHAIR** - What about the other investment losses, is that the same across -?

**Mr WELCH** - The majority of those will revert if we hold them to maturity, and there is a part of our book which is where we raise money early before lending it to the clients where we hedge that with other semi-government bonds because it's the best economic hedge that we can do. There's unrealised losses there which can become realised at some point when the money needs to be available to lend to the client, so predominantly yes they will reverse but not necessarily all of them.

**CHAIR** - That comment relates to the client advances then, that you know are held to maturity, that you should have enough to meet the cash needs. That's what you're saying?

**Mr WELCH** - Yes.

**CHAIR** - With regard to the debt that Hydro holds, on page 55 there's a note about Hydro's \$645.7 million. I actually looked at Hydro Tasmania's financials just recently, and from their annual report, they note \$700 million owed to TASCORP, and you have noted that it is \$645 million. I am interested in has that amount been revalued? I assume that Hydro Tasmania will keep paying principal and interest as agreed, but at this stage, Hydro's loan has a book value less than face value. Could you explain that difference to me?

## PUBLIC

**Mr WELCH** - Again, that's part of our Treasury business, we market value all the client loans so the value of the client loan will vary as interest rates fluctuate. I am not fully across Hydro's financials but I think most of those would be at amortised costs in their books and where the main difference would be. Most of their loans are on interest only where they would repay the principle at maturity, unless they refinance the debt at that point.

**Mr BAKER** - In simplistic terms, on Hydro's accounts they are recorded at face value because we market value account our asset and liabilities for our Treasury activities. With interest rates rising, the market value is less than the face value of those loans. The difference is purely in a difference in accounting treatment.

**CHAIR** - In the case of the financial liabilities - what TASCORP actually owes - the value of bonds owing has fallen by \$780 million, but this in a sense can be called an illusion because over time the value of what is owing will increase until maturity when the value of the bonds will equal whatever the face value is. Is that a correct assessment?

**Mr WELCH** - Yes, also the fall in values from 2021 to 2021-22 was there was a maturity of a benchmark (inaudible). There was \$1.1 billion going out in maturity as well, so there was a natural fall in size. But then you have fluctuations that are then topped up with any other issuance we have done into the marketplace and a change in valuation according to interest rate changes.

**CHAIR** - In terms of the unfunded superannuation, is that a similar sort of situation that if interest rates rise the liabilities fall, even though the payments to be made each year do not change?

**Mr FERRALL** - I probably would not comment on that one.

It is not a TASCORP problem.

**CHAIR** - That is probably more a Treasury problem. We will come to liability and super later.

Does TASCORP pay dividends and tax equivalents on income before or after unrealised losses?

**Mr WELCH** - After.

**CHAIR** - I want to go Treasury and Finance, the general governments debt which is the largest now, as we mentioned earlier. Can you describe, Treasurer or someone from your team here, the arrangement between TASCORP and the General Government, including the term of the loan or loans - I assume there are more than one - whether fixed or variable rates and what was the interest paid in 2022? Page 55 of the table we have been looking at suggests the loan moved from \$1.7 billion to \$2 billion over the 2022 year and does TASCORP have specific borrowings which are on-lent to the General Government?

**Mr FERRALL** - Treasury and Finance approximately have about 35 bond loans from TASCORP with various face values from \$45 million, \$13 million right through to \$400 million as some of the higher ones.

## PUBLIC

The table I have here are the most recent figures which are a face value of \$2.64 billion totally outstanding with a weighted average interest rate of 2.34 per cent so that is the average interest rate across the board.

The rates vary. We took significant loans out early when there were quite low rates. More recent, obviously, as rates moved, the cost of debt is higher and that is reflected in the 2.34 per cent weighted average interest rate.

I am not sure I can give you the figures for individual payments or the payments over the last 12 months in terms of what the cost has been.

Do you have that, Ignacio?

**Mr WELCH** - I have not got it with me but we can come back with the income that TASCORP derived from those loans or interest expense from the Department of Treasury and Finance's perspective.

**CHAIR** - It would be helpful to have that.

Are there some fixed and some variable rates or are they all fixed or all variable?

**Mr WELCH** - They are all fixed; fixed bonds.

**CHAIR** - Do you have any specifically borrowings that are on-lent to the General Government?

**Mr FERRALL** - This is the portfolio of the Government's loans.

**CHAIR** - Are they all different departments?

**Mr FERRALL** - All the borrowings are taken up by Treasury and Finance, not by individual departments. This is effectively the portfolio that Treasury has borrowed from TASCORP.

**CHAIR** - What are some of the purposes for those?

**Mr WELCH** - There are not individual purposes linked to the borrowings. The borrowings are effectively what the Treasury needs to fund the activities of government over all. That includes both recurrent, where we are effectively making operating losses and also capital. There is not a specific link between the individual borrowings and projects on the other side.

**CHAIR** - It is for operating recurrent and capital expenditure?

**Mr FERRALL** - It is for the cash needs of the government overall.

**CHAIR** - The government broadly.

**Mr EDMUNDS** - Can I go back to the Mersey? Is that alright?

## PUBLIC

**CHAIR** - Yes, you can do that.

**Mr EDMUNDS** - On your projections, will there be a dividend in the tenth year of the Mersey fund?

**Mr FERRALL** - Yes.

**CHAIR** - How much would it be?

**Mr FERRALL** - I have a figure somewhere. I think it is approximately \$22 million.

**Mr BAKER** - As at 30 June, the projected tenth-year dividend payment \$21.6 million. That actually increased from \$16.6 million, the year before. That had a few things and this is a risk-adjusted return. The duration, or as the length of the investment shortens, the amount of risk reduces. There is a bit of a risk-adjusted return. We have also optimised some of the surplus cash flows we have into high-yielding assets. Obviously, the increase in the cash rate for those funds that we hold for dividend payments has increased significantly over the last 12 months as the Reserve Bank has increased the cash rate.

The tenth-year payment is expected to be \$21.6 million.

**CHAIR** - Well short of what it costs to run the place. It is about \$90 million annually at the moment, isn't it?

**Mr FERRALL** - I am not sure what the cost is to run the Mersey at the moment.

**CHAIR** - That was the dividend that was paid this year.

**Mr FERRALL** - It is indexed every year. That goes up by 3.5 per cent a year.

**Mr FERGUSON** - I will just add to that, Chair. Under the deal, it was a very good deal for the state, of course, because it was entirely plausible a Commonwealth-owned hospital could have ceased operation overnight, or that under a lesser deal the state could have simply taken it onboard with no upfront cash payment. I think the largest single financial transfer between the state and the federal government at the time. Notwithstanding the fact it was a very good deal, there is a recognition the deal will expire, or at least the funds will expire after the expected life of when it was set up between 10 and 12 years, current looking at 10. After that the state would resume it under normal activity-based funding where the state would fund, and Treasury prepared to, continue to fund the health budget to meet the 55 per cent of activity-based funding and federal government at 45 per cent. We would certainly expect and as Treasurer we do continue to maintain the view that ultimately it should be 50/50, not 55/45.

As the market continues to change, it is plausible that final year return will, in fact, change. It could go up. It could go down. But there is a recognition across government that it will be effectively resumed at a normal health funding after the expiry of the fund itself.

**CHAIR** - We will take it up further in Estimates. It is not really a question for TASCORP. Once money is gone, it is gone.

Just a point you raised on page 10. This talks about - down the bottom there -

## PUBLIC

TASCORP's funding strategy of issuing bonds in advance for clients' needs, and at times, strong invested demand, position us well for a strong funding and liquidity position.

We talked about that earlier. This is the last sentence -

As of 2020-2021, new loans predominantly made to Department of Treasury and Finance with advances rising by \$600 million to \$203 billion.

Can you talk to us more about how that decision was made and what the benefit is of the additional - why was that decision made?

**Mr FERRALL** - Could you clarify, which decision?

**CHAIR** - Sorry. I think the Auditor-General mentioned this in his comments too, about the additional \$600 million that has been put into the new loans.

**Mr FERRALL** - There was a decision effectively taken by the previous Treasurer to cashback special purpose accounts, is that what you are trying to work through?

**CHAIR** - That's it, yes.

**Mr FERRALL** - Essentially, as the committee would be aware, the special purpose accounts hadn't been cashbacked for some time and so we would undertake an annual borrowing effectively as at 30 June in an accounting sense, so that there was cash supporting those accounts. In the period when we had the very low interest rates supported by the Reserve Bank, it seemed a reasonable and prudent approach to fully cashback all of those accounts. That's why there was some additional borrowings through that period.

**CHAIR** - So, that's the only purpose that's really been increased for, to cashback the special deposit in trust funds?

**Mr FERRALL** - Well, I'd have to check in 2021 whether we were borrowing to support the activities, which I believe we were, in terms of the cash requirements of Government as well; but there was probably a more significant borrowing than we necessarily needed to undertake, as I said, to support the special purpose accounts, so that we now have those fully cashbacked.

**CHAIR** - Okay.

**Mr EDMUNDS** - Obviously, we've got GBEs here all week and you're the first one. How many of your GBE clients are operating under a letter of comfort?

**Mr FERRALL** - During the pandemic, there was a broader support provided by the Treasurer to all of the entities and so at the moment we have all of those entities - are supported by that Treasurer's guarantee.

**Mr EDMUNDS** - Is that something that will likely end as we come out of COVID-19 or do you think that will keep - ?

**Mr FERRALL** - Treasurer, are you happy for me to -?

**Mr FERGUSON** - Yes, I am happy for you. Mr Edmunds, this is your first GBE hearing, so I acknowledge that and congratulate you on your election. I'm quite happy for the Chair of TASCORP to just answer those one at a time but to make it clear as well that, as I said in my opening statement, those guarantees that were provided were unconditional and irrevocable, in terms of providing the comfort that was required for those times. Certainly, I'm comfortable with Tony also elaborating on some policy thinking around the future for that which will continue; but we are open to considering advice. No decisions have been made, but we are open to considering advice about whether there are future ways to contemporise those arrangements.

**Mr FERRALL** - At the onset of the pandemic there was an overarching letter of guarantee provided by the then treasurer to TASCORP. That provided a guarantee of the obligations of all of the businesses up to an agreed amount, at the time. That effectively assisted the TASCORP board to undertake its duties through that period - particularly given that, at the acute phase of the pandemic, there was certainly concern that many of the entities would be suffering significant revenue losses and potentially having to find other means of support. So, that was, effectively, why that arrangement was put in place at that time.

That letter of guarantee is still in place. I did mention this last year, Treasury and TASCORP are looking at alternative means of trying to deal with that arrangement. From a TASCORP perspective, it's unconditional and irrevocable, so from a TASCORP perspective organisationally we would be looking for an alternative support framework rather than just saying that the guarantee would be removed.

There are various options that Treasury and TASCORP have been looking at. Again, it is ultimately a matter for the Treasurer to consider some recommendations from Treasury, potentially. The sort of things we are looking at is potentially replacing the letter of guarantee with some form of embedded legislative guarantee within the TASCORP act, which might be ensuring guaranteed support for the entities if TASCORP lends to them. That is a similar approach to what is undertaken in some other jurisdictions with their central buying authorities. There are some different models. The approach we have at the moment, where we sort of have the overarching letter of guarantee, we also have some entities that have specific guarantees and will have some specific guarantees going forward; so, it is a bit of a mixture in approaches and what we are looking to do is to find a standardised, simple approach that would deal with the support required for all of the entities.

**Mr EDMUNDS** - Are they sort of different because, when we go through the annual reports, some GBEs potentially need that letter more than others, but for even part of the pandemic? So, you sort of want to simplify across the board?

**Mr FERRALL** - Yes.

**Mr EDMUNDS** - You obviously have lendings to local government as well? Have any local government loans got the letter of comfort?

**Mr FERRALL** - They were supported as well.

**Mr EDMUNDS** - So, it was just across the board as well. Thanks.

**CHAIR** - Okay, going back to the General Government being the major customer at the moment, presumably TASCORP, when it takes on a client or a client seeks an increase in their borrowings, must ascertain what the client needs over the foreseeable future. I assume TASCORP assesses that. But, in the case of the General Government, what is the time period of that future view?

**Mr FERRALL** - From a TASCORP perspective, TASCORP looks at the General Government sector forward Estimates, effectively. That gives TASCORP an indication of the potential borrowing over the next budget plus three years. TASCORP feeds that into its own decision-making and forward planning, but quite clearly, it depends on what the Government needs as to the actual borrowing that takes place. This financial year, it is more likely that the state will borrow less than it has indicated. If there was a situation where the state needed to borrow more than indicated across the forward Estimates, TASCORP makes sure it is in a position to be able to provide that as well.

**CHAIR** - I haven't looked at the forward Estimates to see, but are you suggesting that the forward Estimates indicate that there will be less borrowings needed next year?

**Mr FERRALL** - No; what I have alluded to is that, from a state perspective, we have a particular level of borrowing that we have indicated in the current Budget for this year and, given the level of borrowing year-to-date that has been needed, it is more than likely that we will borrow less than we have indicated in the current forward Estimates.

**CHAIR** - How long a horizon do you look to in this?

**Mr FERRALL** - Well, we have the Budget, plus three.

**CHAIR** - It is just that period. I suppose it is a positive effect, if you have less borrowings with the higher interest rates, that should balance itself out a little bit?

**Mr FERRALL** - Are you comfortable for me to continue, Treasurer?

**Mr FERGUSON** - Yes, of course.

**Mr FERRALL** - Look, that is an unknown; you are asking how much interest rates are going to go up and how much less will the borrowing level be - so, I think it is an unknown. Our most recent borrowings, obviously, are currently higher market interest rates than our earlier borrowing; but what might happen over the next six or twelve months is partially in the hands of the Governor of the Reserve Bank.

**CHAIR** -How do you and TASCORP assess the risk? When you are determining how you are going to invest your funds and that sort of thing, what is the risk profile that you focus on?

**Mr FERRALL** - I will ask Heath to answer in terms of the forms of investment that we make in relation to our cash and the risk profile of that, if that is okay?

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**Mr BAKER** - We have a very conservative risk appetite. Our investment in our Treasury activity is about liquidity, so maintaining liquidity and ensuring we have access to funds as and when our clients require it.

The majority of our reinvestment on our Treasury activity is predominantly in the big four Australian banks, so that would be in short-term liquid assets that we can realise at short notice if an unexpected liquidity requirement comes through. We have a very conservative risk approach with our Treasury activities and the primary driver is liquidity.

The Mersey has a slightly different risk appetite because it was more of a term investment. We had an investment horizon out to 10 years, once again, predominantly in cash and fixed interest investments, so bonds and investment grade plus rating that they must hold. Once again, being a central financing authority, preservation of capital is our primary concern, so it is very modest.

**CHAIR** - What has been the rate of return on the Mersey money?

**Mr BAKER** - The rate of return on the Mersey is currently 2.31 per cent.

**CHAIR** - That is in the last 12 months?

**Mr BAKER** - Is the current return, yes, as at 30 June, actually the 2021-22 return was 2.31 per cent.

**CHAIR** - Do you have a table since that money has been invested, what the rate of return has been? I remember asking this right back, it seems like a 100 years ago but it was not quite that long ago, when this money was first received from the federal government and we talked about what sort of rate of return you would need to actually make the money last the distance. Then, we were talking about 10 to 12 years. We have already mentioned that is not going to be the case, we are going to make a dividend payment on the tenth year which will be less than the amount that is currently being paid.

Have you got a summary of the rate of return over the last period of investment and any expected future return, if you can, on that?

**Mr BAKER** - Not to hand. It is something that we could put together. I do know that on day one, the rate of return had to be 4.11 per cent to ensure a full 10<sup>th</sup> year dividend was paid. Back in 2017 when these monies were brought through, we were in a rising interest rate environment, so there was an expectation that interest rates would rise. Subsequently, what has happened, no-one could predict the pandemic which brought interest rates back to 0.1 per cent.

As Ignacio touched on before, we have done a lot of transactions to protect the 10<sup>th</sup> -year payment through that period.

**CHAIR** - As I understand it, a significant portion of that \$735 million from memory, I think that was the amount -

**Mr FERRALL** - It was \$731 million, I think.

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**CHAIR** - Yes, \$731 million, close. That was invested over a longer term so you would have locked in a higher interest rate on a lot of it, I would have assumed.

**Mr FERRALL** - You have to recognise that effectively it is a profile which always requires some erosion of the capital. When the Mersey Community Hospital Fund was established, we took a prudent and risk-averse approach to the funds. We did not invest in funds which could have led to a significant erosion of the capital in a loss sense, which again dictated the sorts of products that we were looking at, were effectively cash-based products that we invested in over that time.

You could have taken greater market risk in regard to an investment and potentially got a higher return, but I am not sure the Committee would have been too pleased if TASCORP came back and said, look -

**CHAIR** - Whoops.

**Mr FERRALL** - It has not quite turned out as we thought and the capital has been eroded to the tune of \$300 million because the market has crashed overnight.

**CHAIR** - I am sure we have had this discussion in previous years around this table too. I understand that there had to be some conservatism in the investment there, but it would be helpful to have the rates of return, acknowledging that the pandemic has had a significant effect.

**Mr FERRALL** - We can certainly provide that.

**Mr FERGUSON** - We will take it on notice, if that's okay Chair. If we can provide through the day we will.

**CHAIR** - That's fine. As we know TASCORP, is a state-owned company and can receive instructions and guidance from the shareholder minister, the Treasurer. In regard to some of these decisions that are made, which you need to have certain expertise to work in, does TASCORP wait for the minister to indicate to TASCORP what the general government might need or does TASCORP itself with the knowledge and expertise in the area determine what's best and respond? What is the interface between the shareholder minister and the organisation?

**Mr FERRALL** - I can answer that from a Treasury perspective. Treasury has an internal committee which is basically the Financial Assets and Borrowing Management committee, which effectively determines the need for borrowing within year, and also determines the nature and form of any investments that Treasury make on behalf of the Government. That is done under a term of reference which is effectively signed by the Treasurer, so we operate under a term of reference as a committee and we report to the Treasurer from that committee on an annual basis.

On a day-to-day or even on a month-to-month basis, the Treasurer does not provide direction or guidelines to the committee, we operate within that framework. Similarly, in terms of the day-to-day and month-to-month cash needs of Government, that is managed by Treasury and there would not be need to reference the Treasurer directly. If there was anything that was unusual or things were not running as we would have expected from a budget management perspective then putting my Treasury hat on, I would be reporting that to the Treasurer. The

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Treasurer also gets regular and continuous reports and budget updates regarding the status of the general government budget so there is not a day-to-day interference if that's what the question is.

**CHAIR** - 'Interference' may not be the word I would have used, but guidance, instruction or anything like that. Thanks for that. If I could go to note 16, page 59, with the TT-Line vessel replacement fund, as I understand it, TASCORP basically just manages the fund, the transactions are all managed through TT-Line. Assuming that there is not a lot left in there, as they have made a number of payments on the new vessels, as I understand it, do you expect that the balance of this which is now \$41 million will be spent the next financial year? This fund will then basically disappear.

**Mr FERRALL** - That would be the expectation.

**Mr BAKER** - Yes, just to clarify one point, the fundee is actually the Crown; it is a government fund.

**CHAIR** - It was parked with TASCORP so that the greedy Labor government could not get their hands on it. That was it.

**Mr FERRALL** - No I do not think you agreed to that.

**CHAIR** - That is what was said at a certain time back in the history books, anyway.

**Mr BAKER** - Our current understanding is that the next progress payment for the ships is due in early December and the vessel replacement fund will be fully withdrawn at that stage to make that progress payment.

**CHAIR** - So that will then disappear out of TASCORP's records entirely?

**Mr BAKER** - Yes. The fund will close.

**CHAIR** - In terms of TT-Line needing further borrowings to fund the vessels, do they have borrowings with you at the moment?

**Mr BAKER** - No borrowings at the moment, we have a borrowing limit in place in readiness for them as and when they require the drawdowns for those new vessels.

**Mr EDMUNDS** - Is it riskier for your organisation to deal in the euro? Do you have policies in place for lending into a euro market, like you would with pounds or US dollars?

**Mr FERRALL** - We do not take the foreign exchange risk effectively, so we hedge. We are not taking foreign exchange risk on it, from TASCORP's perspective at all.

**Mr EDMUNDS** - How is that different to say if you were buying off a US shipbuilder in US dollars?

**Mr FERRALL** - We would take the same policy approach. The hedge arrangements were put in place virtually as soon as TT-Line made the purchase.

**Mr BAKER** - The intent of the foreign exchange hedging that we have in place is to convert that foreign currency amount into Australian dollars. TT-Line already knows what their Australian dollar commitment is, i.e.; to buy the 50 million euro they need to pay it next month, they already know what the Australian dollar equivalent is and that is hedged in advance of the payments. So, the Australian dollar cost of these vessels is locked in. We do not actually issue bonds in foreign currency; this is purely a foreign exchange hedging strategy to give TT-Line the euro that they need to make the progress payments.

**Mr EDMUNDS** - How do you factor in the choppy waters for foreign currencies, if you do that? If you are looking at longer term?

**Mr FERRALL** - You can take a contract that gives you a fixed Australian dollar cost going forward. That is what happens, effectively.

**Mr BAKER** - This is taking the volatility out, so you have a known cash flow.

**Mr EDMUNDS** - Do you get TT-Line to seek that, or is it done at your end?

**Mr BAKER** - Due to the size of this transaction - it was about 400 million euros/dollars - TT-Line transacted that through us, and we transacted that on a back-to-back basis with the market. We have a larger number of counterparties that we can deal with. It is a significant transaction, so, TT-Line did work closely with us around the foreign exchange hedging requirements of these ships.

**Mr GAFFNEY** - Is the TT-Line borrowing purely to do with the *Spirits* or do they also borrow funds to do with the improvements to the ports in Geelong or Mersey; or is that with TasPorts?

**Mr FERRALL** - I think those questions should probably be directed to TT-Line, in terms of their borrowing requirements. At the moment we do not have any borrowings.

**CHAIR** - TT-Line don't have any borrowings?

**Mr FERRALL** - TT-Line do not have any borrowings from TASCORP.

**CHAIR** - At the moment. There is a facility though, to enable them to.

**Mr GAFFNEY** - Okay.

**CHAIR** - To go to some of your people; it is a small staff, of 22. Bearing in mind it has been a pretty stressful time, I imagine, trying to deal with some of the volatility in the markets, you have to focus on employee wellbeing, including additional training, and flexible ways of working which continues to be a high priority. Can you talk a little more about that? There is more information on page 20 of the annual report about the mental health and wellbeing work that you are doing. Can you talk about this a little bit further and give us some more information?

**Mr FERRALL** - I will make some comments to start and then Heath can follow up in more detail. TASCORP has had a number of staffing changes, particularly in the last two years.

Post the pandemic, like most organisations, staff are more mobile and people are making different choices in life. We have had various internal staff movements, some departures and - positively - several new and additional employees. Our employment has gone up slightly; as at 30 June 2022, it was 21.4 and at 30 June 2021, it was 19. Heath can give me a current update, but I think we are slightly below that now because we had two departures.

**Mr BAKER** - No, we do have two vacancies, or we will have two vacancies.

**Mr FERRALL** - We have been doing quite a bit of work internally to try and support our staff. We are an unusual business in a Tasmanian context. There is nothing else like TASCORP in Tasmania and there are limited entities that are similar across the country. It is always quite challenging to get the staff with the necessary qualifications and skills that we need, but we are doing quite a lot of work with our existing staff to upskill them as well. In terms of matters such as flexible work, TASCORP takes quite a flexible approach to enabling employees to work flexibly. In terms of some of the mental health support that we have been giving - Heath, you might give a couple of comments on where we are at, and some of the internal work you are doing with the staff across the board.

**Mr BAKER** - This is a key focus coming out of the pandemic. Being an operational business, TASCORP had not always lent itself to having flexible working arrangements. We need staff in the office, talking to each other, due to the style of business that we have. The pandemic meant that we needed staff to work from home over that period. Through that period, staff felt that that was a positive, being able to have some flexibility. We have introduced and maintained and updated our IT suite to ensure that staff can work from home remotely and still have connectivity between each other.

One of the bigger challenges is about training. We have quite a few new staff, so we have spent a lot of time and resources in the last 18 months updating and upskilling people with training and training courses.

**CHAIR** - Just on the training, Heath, is there much suitable training available in Tasmania, or does it have to be done online, or do people have to travel for it?

**Mr FERRALL** - TASCORP is doing quite a lot of work of cross-skilling internally, and so some of that is effectively called on-the-job training, or people training internally. Also, a number of our staff go to externally-facilitated courses. There is probably not too many in Tasmania, in reality; they do tend to be Sydney or Melbourne-based.

**Mr BAKER** - One of the new recruits that we hired was a specific human resources specialist to assist us with that training and development. A lot of those soft skills, that type of training can be done locally. But, a lot of the markets-related training that we're undertaking is remotely, via online courses. One of them is the Australian Financial Markets Association, based out of Sydney. It is product-specific.

It has been a keen focus. We have had a very disruptive two or three years, as every business has. It is not unusual to have a bit of staff turnover. We are seeing it in most businesses that we interact with. We are trying, because of the specialised nature of our work force, to ensure that we can meet those flexible working arrangements that people are now accustomed to, and how we can we build that into our business.

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**Mr FERRALL** - I think you have to recognise as well the nature of the staff we have. They are in high demand around the country, as well. We will always have mobility as a challenge.

**CHAIR** - And it is a tight labour market at the moment. The Audit Office also finds that these sorts of specialist skills are not necessarily easy to find.

Have you got a cost of the training that you have delivered?

**Mr BAKER** - During 2021-22, training expenditure was \$41 375, or 1.44 per cent of total staff remuneration.

**CHAIR** - Does that include their travel cost where they had to travel?

**Mr BAKER** - Travel is minimal for training. As I say, we had utilised online training courses, and most of those providers had that. For example, this financial year we have actually flown someone in to do some specialised training, rather than send staff off. Next year the training costs will be slightly higher again, because of those factors.

**CHAIR** - I think there is value in having face-to-face stuff rather than having it all onscreen, because we all get a bit tired of that. I am sure the minister is finding that challenging today, being online. He is muted. You are muted, minister.

**Mr FERGUSON** - Thank you, I am just glad to be here at all.

**CHAIR** - No worries. If I can just go to the gender mix of your workforce, I am interested in how you work toward a more gender-equal workforce. You have made significant inroads in this. But when I look at the organisational chart, you have a number of women across the workforce but there is only one in the more senior management level. When we talk about the gender pay gap, it is apparent that that is a bit of a challenge. What are you doing to try and attract women into these more senior roles? Obviously, increasing them into your organisation is the first step and it is good to see there is a greater number of women working within the organisation but what are you doing at the senior levels?

**Mr FERRALL** - You are correct, we are improving, we are not at the point we would like to get to in this matter. It is challenging organisationally, specifically to TASCORP because it does tend to be a male-dominated industry we recruit from, which does make it challenging. The comment I would make is we are doing what we can to make our organisation more attractive to all staff effectively. That is why we are doing things like expanding flexible work and we are very open to more family-friendly arrangements, in terms of our employment we may not have been open to some years ago.

I would also make the point - and I am careful how I would say this - but we would never employ somebody because they were female. We employ the best people for the roles, whether they are male or female. We are not actively trying to recruit females to roles, unless they are absolutely the best people for the role and is what occurs when we do recruit. As I said, we are working on it and will keep working on it, but we will always recruit the best people. Again, I do not think anyone here would expect us to do anything other than employ the best people for the roles we can.

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**CHAIR** - That is not in dispute, however, a workplace that makes it more acceptable for women to apply for a position, can make a huge difference to who applies.

**Mr FERRALL** - And that is what we are trying to do. You have to be an employer that is attractive effectively and so, you have to put in place arrangements and it is not just females that people -

**CHAIR** - Men are parents too.

**Mr FERRALL** - - actually need and want in a modern environment. If you are operating as an entity that basically says, look, we are a 40-hour a week entity and you must come into the office, we do not have any flexibility, then in the modern environment you are not particularly attractive. We are ensuring we are as attractive as possible. Heath and I have numerous discussions whenever there is senior recruitment to ensure we have attracted the best field possible and if that best field does not necessarily include females, then the conversations I would have with Heath are about, what have we done to try and make sure we are an attractive place for people to employ.

**Ms LOVELL** - If you would not mind elaborating on some of the flexible work practices you have in place. What some of those things might look like and how they are arrived at.

**Mr BAKER** - Obviously, the biggest one is the work-from-home, the ability to work-from-home on a number of days, the flexible working hours. As I say, we are an operational business, so we do need to enter into deals in the market and being able to settle deals. There are limitations on some roles but flexibility in hours as in if there is a requirement to leave or have appointments, we are extremely flexible from that perspective. But as a small staff of 22, it is always a hard balance on providing the utmost flexibility and still running an operational business. We have instigated ways we can mitigate that. We have upgraded the IT infrastructure that everyone now has laptops. We have provided the appropriate equipment at home that they can access our servers securely. Obviously, we have very large cash inflows and outflows, so security is number one. There was a lot of upgrading we needed to do to the IT infrastructure. We are open, flexible. To touch on the recruitment, the philosophy I have put in place is that - and we have had quite a few vacancies so we have advertised. If the shortlist comes back and it is full males, the question I would go back to the SMs with, as Tony comes to me - if not, why not? Why isn't there a female there? We should be ensuring there is a female in that short list to ensure we are not overlooking or had the unconscious bias we have just assumed they have not met the criteria of being the best person.

**Ms LOVELL** - It is a small workforce and I notice you have only 10 per cent of your employees who are part-time. Are part-time hours something you are open to as an organisation for women, or job-share arrangements or that type of thing where flexible working hours is one thing but if you are also trying to manage a household and still do a 40-hour workload it is not sustainable or not attractive?

**Mr BAKER** - We have three staff currently on part-time hours and that is purely to accommodate their requirements with young children.

**CHAIR** - Are they are all women?

**Mr BAKER** - Two women, one male.

**Ms LOVELL** - That is good, even better.

**Mr BAKER** - Once again across the board, the options are there and we have to balance it with that role. Unfortunately, there are some roles where we cannot offer as much flexibility as other roles.

**Mr FERRALL** - The operational requirements of TASCORP, in terms of interacting with a market which is not flexible does not lead you to the same choices in time shifting you might get in some roles and does become a challenging barrier. It does not mean you cannot do job-share, as you alluded to, and it does not mean you can't have flexibility, but it just needs to be sometimes worked around some of those parameters.

**Ms LOVELL** - Thank you.

**Mr EDMUNDS** - This might be related but on page 26 there is the line item about plant and equipment which has obviously gone up a lot. Is that due to generally being locked down and then also having to set up home offices or is it some other reason because it is a quite a big jump?

**Mr BAKER** - It is quite a big jump, but it is quite a small number in the context of -

**Mr EDMUNDS** - Is that home offices and generally renewing your IT from being shut down?

**Mr BAKER** - I will have to take that on notice. That would be CFO is not jumping in and tapping you on the shoulder to let me know - or is it the right-of-use assets?

**Mr WELCH** - Yes, it is.

It is largely due to the fact we are in the process of moving offices and we were taking a new lease out on new premises. It is really a (inaudible) on the asset side and the liability side. I do not have the right page. The right of use asset has gone up -

**CHAIR** - It is on page 60.

**Mr FERRALL** - You will get the liability on the other side.

**Mr WELCH** - And you have the liability on the other side; that is the main reason.

**CHAIR** - If I can go back to the flexibility arrangements - what parental leave arrangements are there for TASCORP employees?

**Mr BAKER** - There are parental leave arrangements.

**CHAIR** - That is really good to know.

**Mr BAKER** - We have a range of policies that cover issues such as parental leave, I just need to pull it up.

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**CHAIR** - Someone might be able to do that from behind.

**Mr FERGUSON** - We will have that through the day for you.

**CHAIR** - Thanks, Treasurer.

With the increase in flexibility arrangements, particularly working from home and the IT upgrades, I notice you have one lonely IT officer who is a woman, which is fantastic. IT is another male-dominated area.

**Mr BAKER** - Yes, she was one of our new recruits; that was a new role we put in place because of the heightened cyber security IT requirements of our business. We have an IT manager who comes probably under the structure of an operations manager.

**CHAIR** - Is that Jeff Daniels?

**Mr BAKER** - Yes, Jeff Daniels; he is the senior IT person but because it is a developing area we have put on an extra body in that IT space to support Jeff to deliver, monitor and maintain our IT infrastructure.

**CHAIR** - What is the role of the IT officer; what does she do?

**Mr BAKER** - It is predominantly the day-to-day issues. I cannot access my laptop but it is the rolling out of new infrastructure and dealing with our IT partners. It is a development type role. It is a more junior type role -

**CHAIR** - I sense that.

**Mr BAKER** - but there is a scope there for her to learn and grow and expand.

**CHAIR** - In terms of the broader question, maybe the main responsibility really falls to Jeff Daniels here. Because of that expansion and because of the nature of spreading access to the data that you hold, what approach are you taking to cybersecurity, in protection of the data?

**Mr FERRALL** - There has been a heightened focus from the board on cybersecurity. In fact, it was only at the last meeting that we had a detailed review and a full report from Jeff on the steps that had been taken and how that was working. Again, I would need Jeff actually in terms of expertise to give you the detail behind that and I think Heath would as well.

We have certainly lifted our effort in terms of cybersecurity. We are very conscious of the significant risks and we will continue to get regular reporting at board level, updating in terms of any changes, any risks. If there are any effectively-attempted penetrations, they are all reported to the board and we monitor those.

**CHAIR** - I am sure there have been.

**Mr FERRALL** - If you run an organisation at the moment you will have had an attempted penetration of some shape or form.

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**CHAIR** - If you say you have not, you are not looking. That is right. Just with regard to your consultancies, I know there is only one consultancy with only \$7000. I am interested, was that related to the IT stuff or was that something else?

**Mr FERRALL** - We will get the information of what that one was.

**Mr BAKER** - It was either to do with culture, some culture training -

**CHAIR** - That might be linked back to the person you flew in to do the training.

**Mr BAKER** - No, we used a local person for the HR stuff, Gwen Pinnington -

**CHAIR** - That is all right.

**Mr BAKER** - But as I say, exactly what that is -

**CHAIR** - You do not use external consultants for the work, the financial work you do? That is all done in-house then? There was only a small number and I thought you must do the rest of the work in-house.

**Mr FERRALL** - We do not use consultants for the normal activities of TASCORP, but there are occasions when we do need consultancy support but we are not a high user of consultants, as you can see.

**CHAIR** - No.

**Mr BAKER** - Most of that expertise and that is why we say, there is a lot of job specialty within the business, that knowledge is held internally. As I say, we really only use consultants when it is outside the spec of TASCORP. Mersey was probably one of those occasions where we engaged a consultant to ensure that the investment strategy was aligned to market best practice, back in 2017.

**CHAIR** - They used that then? Not recently? Out the outset?

**Mr BAKER** - At the outset, yes.

**CHAIR** - Other members? Did you have one, Luke? You go. Nick says he has not, he has not got a Dorothy Dixier for us.

**Mr EDMUNDS** - I am on page 55 of the Auditor-General's Report and Financial Statements and I quote from beneath table 11 on page 55:

PNFCs in industry sectors with significant infrastructure, such as Hydro Tasmania and Tas Networks, accounted for 97.2% of total debt held at 30 June 2022.

PNFCs with debt had a weighted average current ratio of 0.46 consistent with the 2020-21 result of 0.47. This outcome is still below the benchmark of 1.0, which indicates a net working capital deficit. Of the 7 PNFC entities that held borrowings at 30 June 2022, 5 held current liability balances that

exceeded their current assets. Maturing short term debt for these 5 entities is expected to be refinanced during 2022-23 in line with the entity's Treasury Risk Management Policy and Master Loan Facility Agreements with TASCORP.

Is it a concern that of seven public non-financial corporations that hold borrowings, five have current liability balances that exceed their current assets?

**Mr FERRALL** - Not from a TASCORP perspective, no. I think you would need to ask the questions of the individual entities in relation to their financial position. I think the issue of having current liabilities maturing from the effect of having those current liabilities, from a TASCORP perspective, are we in a position to provide them with the funding on a short-term basis if needed? The answer to that is yes, we do have capacity to do that. In terms of the individual entities' balance sheets and their debt position effectively, you would have to ask them about that directly, rather than through TASCORP.

**Mr EDMUNDS** - Is it a concern that PNFCs with debt have a weighted average current ratio of 0.46, which is below the benchmark of 1.0, which indicates a network in capital deficit?

**Mr FERRALL** - I think I just answered that.

**CHAIR** - Yes, they have the money to give them.

**Mr FERRALL** - TASCORP ensures that our operations in the market are such that we can meet the needs of all of our clients. Heath, and others, have regular meetings and liaison with all our clients, during which they identify their cash needs in the short term and the medium and long term. We ensure that we have the capability to raise those funds as and when needed by those entities, or we already have the funds raised. So, the fact that some of those entities have high current liabilities is not necessarily a concern to TASCORP because we know that we are able to fund them when they need the funding.

**Mr EDMUNDS** - But, it is in the Auditor-General's report? They do not put things in writing for nothing. So, you do not think it is a concern?

**Mr FERRALL** - Not from a TASCORP perspective.

**Mr EDMUNDS** - Yes, thank you.

**CHAIR** - Maybe for those particular entities, yes. So, just a follow-up from Luke's question, you said that you have regular meetings with the entities that have borrowings with you. Is that a scheduled arrangement or do you think, 'Oh, TasNetworks is getting an awful lot of debt on their balance sheet'?

**Mr FERRALL** - I will start and Heath can continue. There are regular meetings with all of the entities and at a board level, we get a report at our monthly meeting, which effectively details the meetings that have occurred and with the different entities. It provides some commentary in relation to how they are performing or issues that might be of concern and all those things, but Heath has a regular schedule with all entities.

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**Mr BAKER** - As pointed out, there are three to four clients that make up the majority of our on-lending, so we do have regular scheduled meetings. One is with Treasury through the FAD MC (tbc), a meeting we are in attendance and we have regular meetings set up with Hydro, TasNetworks and TasWater. Then, on an ad hoc basis, when new requirements come through, we meet and discuss with them on multiple occasions.

**CHAIR** - So, is that at your initiation, or is that just a standing arrangement, if you like?

**Mr BAKER** - It can be both. There are quite a few standing arrangements in place, just to ensure that we are touching base, making sure. We also read a lot in the media that keeps us informed.

**CHAIR** - In terms of the volatility we have seen in the market, has there been an increase in meetings with these entities that have carried a lot of debt?

**Mr BAKER** - Around their future requirements, yes. As Tony pointed out earlier, the Government's borrowing requirement is unlikely to be what was detailed in the budget. So, for example, our borrowing program for the year was forecast to be somewhere between \$2 billion to \$2.5 billion that we would need to issue into the market this year. As we communicate with the market and investors directly, we need to keep them informed of our requirements. We keep in regular contact to understand what is impacting, what is the timing of the requirements (a) to ensure that we can keep the market updated; and (b) to ensure that we have got enough liquidity on our books to meet our clients' requirements, if and when required, if we cannot access the markets. Markets have been volatile.

I will respond to a couple of outstanding items. The consultancies were for our HR consultant, Gwen Pinnington, to come in and do some work with us. With regard to the parental leave, staff after 12 months continuous service, are entitled to 12 weeks paid leave.

**CHAIR** - That is for either parent?

**Mr BAKER** - Yes; and additional access to unpaid parental leave on request on return. There is also a return to work, so there is the ability to come back on a part-time basis to transition back to full-time, for those that are full-time employees.

**CHAIR** - Thank you for that.

**Mr EDMUNDS** - Back to what you said about having, perhaps, a slightly more hands-on role related to some of the commentary of the Auditor-General, do you have to keep a closer eye on factoring in the letters of support we spoke about earlier? These organisations are run by professional people; but when they have got a letter like that, do they get more ambitious, do you have to keep them in check? Is that why you are catching up?

**Mr FERRALL** - I will give a broader answer. Notwithstanding the letter of support, TASCORP takes the approach that all the entities are analysed and the board considers whether the board would be willing to lend to them. The letter of support is only part of the equation. If, even with a letter of support, the TASCORP board is concerned about the level of borrowing - it doesn't believe it is prudent to lend to that level - then we instigate discussions with Treasury and also with the Treasurer, to ensure the Treasurer is aware of the level of borrowings and, potentially, the concerns.

We don't take an approach that it is guaranteed and therefore we will lend; we go through a full analysis for any additional lending to take it all in context.

**CHAIR** - On that point, during the last couple of years, have you had to raise any concerns regarding the level of borrowings with any of the entities with the Treasurer?

**Mr FERRALL** - We have raised with the Treasurer where there are new borrowings in some cases where, from a TASCORP perspective, we would not necessarily consider them to be a bankable or market lending. We have raised that with the Treasurer on occasion.

**Mr EDMUNDS** - Do you expect with the volatility in interest rates ahead of us that that might happen more often?

**Mr FERRALL** - That is a difficult question. The entities we lend to have long-term portfolios as well. By way of example, the Treasury portfolio has a term really of about 7.9 years. Where there is short-term market volatility, that is not necessarily going to significantly impact on the overall pricing or costing of the portfolio; but if you have a sustained period of higher interest rates, then it does start to impact.

**Mr EDMUNDS** - UTAS went direct to market rather than coming to TASCORP. Do you have any commentary on that? Is it because they could get 'a better deal elsewhere'?

**Mr FERRALL** - We were working with UTAS, and we did considerable work with UTAS in relation to the borrowing. They made a decision or a choice to effectively access other finance. I don't believe that they would have accessed finance any cheaper than TASCORP could have provided at the time. It was a choice they made to go elsewhere, other than TASCORP.

**CHAIR** - My limited understanding of that is that they purchased green bonds as their predominant borrowing. You might not know that, but taken from what I read. What benefit would there be in purchasing green bonds, from a borrowing point of view.

**Mr FERRALL** - I don't want to specifically comment on the UTAS borrowings - that's a matter for UTAS. From a TasCORP perspective, the analysis that we undertook at the time, the cost of the UTAS borrowings would not have been of significantly greater or even lower than TasCORP could have provided, so it was on a par; but, we believe we could have provided a slightly better borrowing cost. Now, that was our analysis of the market at the time, so it's not perfect. I cannot specifically comment on UTAS borrowing.

**Mr FERGUSON** - I might just jump in there as well, Chair. Thanks, Mr Edmunds, for the question; I do understand the question. We will just decline the opportunity to make any comment on that entity's decisions that it quite properly can make as an autonomous organisation. However, it has access to borrowings - should it need them - through TasCORP. That does not mean that we insist on it or overplay our hand; we recognise their effective sovereignty as an organisation to choose where they borrow from and to whom they sell bonds; no problems here.

**Mr EDMUNDS** - I am not completely across the green bonds part, but does that put pressure on you? There's a lot of pressure on superannuation funds et cetera, where people need their money to be ethical and things like that. Where does that place you in that market?

**Mr FERRALL** - We are actively monitoring the market in that regard. The feedback that we get at the moment is that there would not be significant benefit in Tasmania effectively issuing a green bond because we are already green, and we are already effectively bankable from other parties as a green entity. So, from the analysis we have done to date, there's no significant benefit in the state issuing particular or identified green bonds but we are continuing to monitor benefits in the market. Clearly, if there was a benefit to the state we would. It's not cheap and it's not an easy path to down either. Given that, from our perspective we get the benefits that we already have effectively because of Tasmania as an entity, it's not something we are actively pursuing - but we are monitoring.

**Mr EDMUNDS** - In the reporting period have you rejected any applications for finance from GBE's or local government?

**Mr FERRALL** - No.

**CHAIR** - With the new benchmark bonds that were purchased, I understand there are 34 different investors for that. Are you able to say who they were, the new investors in the benchmark bond purchase?

**Mr BAKER** - I can say that is a combination of banks, asset managers, offshore institutions, central banks. The predominant purchasers were domestic Australian banks because of the requirement to hold - in their terms - quality liquid assets under their regulator. Semi-government bonds - which we are classified as - are the highest yielding asset class there. One of the other measures that the RBA put in was some funding facilities for the Australian banks. That is now unwinding, which means they are having to buy more semi-government bonds and Australian government bonds in their portfolio. We saw quite big demand from the big four banks, the regional banks, and some of the offshore banks operating in Australia buying our paper. But I could not give you a name-by-name.

**CHAIR** - I am interested more in the classes of people, if you like, or organisations.

If I can just go back, you said you lost a few staff. Do you actually do exit interviews for the staff when they leave? In these very tight employment markets, they can be poached by other entities and other government entities similar to TASCORP, that may be able to pay more. What exit process do you use with your staff that leave?

**Mr BAKER** - Yes, we have implemented a formal exit interview. As mentioned previously, we have had a very stable workforce in the leadup to and through COVID-19. Tight labour markets, yes. There has been a general theme where some have moved for opportunity. TASCORP being a small organisation does not always mean there is a career progression. We will train staff up and for them to get the next move, it is a big jump from an officer to a senior manager role. They need to go out into the market and get broader experience. Yes, we have lost a couple staff to other government departments.

**CHAIR** - Tasmanian government departments, right?

## PUBLIC

**Mr BAKER** - Yes. Both on a salary and a career progression. Then we have lost a few moving interstate. As I say, uncertainty through that period. People coming out of COVID-19 meant a lot of people were looking, and a lot of people found there were a lot of opportunities out there. We have limitations on what we can do on a remuneration sense. It is not all about remuneration. Hence why the focus has been on employee engagement, what else we can do to make it a more a workplace people want to come here and work.

Tasmania has had pretty good appeal. We have recruited two or three from mainland Australia, which has been positive.

**CHAIR** - What sort of work have they come from to here?

**Mr FERRALL** - Other central borrowing authorities.

**CHAIR** - State-based ones?

**Mr FERRALL** - Yes, in other states.

**CHAIR** - You have been poaching them as well?

**Mr FERRALL** - Well, no.

**CHAIR** - Sorry.

**Mr FERRALL** - We have been fortunate to be able to show them the benefit of living in Tasmania.

**CHAIR** - Okay. I know you have had a fairly stable workforce and the exit interview is a new initiative in many respects. Is it to try to understand why people might leave?

**Mr BAKER** - Exactly, just to ensure we are not overlooking something we have missed we can easily implement. Obviously, I am not going to stop staff from progressing their career if we cannot show. Career progression in TASCORP does need staff turnover. That has been the one positive with staff turnover. Over the last 18 months we have lost seven staff. We have seven new staff in the organisation and 14 staff in new roles.

**CHAIR** - Some have moved up through the system.

**Mr BAKER** - Correct. That has created opportunities for people to move into different roles. Hence why I mentioned before, training is something that is pretty big for us at the moment, because 14 of those 22 staff are in a steep learning curve in new roles. That has given them opportunities. Hopefully, that stems the turnover a little bit.

**Mr FERRALL** - It is positive, because when you have a small organisation with no turnover, you do find people effectively blocked of opportunities because there is no change. The opportunities Heath spoke of in terms of people going into new roles, growing and developing is actually positive. It is just disruptive at the time.

**CHAIR** - It would be nice to keep them in your own organisation, invest in the people.

## PUBLIC

**Mr FERRALL** - Yes. But you just cannot run an organisation like that.

**CHAIR** - No.

**Mr FERRALL** - The reality is, TASCORP is small. We will always have people coming, going, changing. Because we are small, when you have even two or three moves it can be quite disruptive and a challenge. To be clear, we are not concerned organisationally that there are any issues around TASCORP. This is just a matter of what is occurring more broadly in the market and people making changes.

**CHAIR** - I guess the question that you are alluding to is, is there no underlying cultural problem sort of pushing people out, or encouraging them to look elsewhere?

**Mr FERRALL** - No. In fact, the surveys we have done on culture have shown it is a very positive culture internally. Like every organisation, there are things we can do to improve and we will keep working on them.

**Mr BAKER** - That is why we have brought in the external consultant just to make sure of our view. Coincidentally, we have a couple of our staff presenting to the board today at a board meeting and a strategic workshop. Some of those staff will be presenting to the board on our purpose, value and giving a perspective from the staff perspective to the board. It has been a focus area over the last 18 months.

**Mr EDMUNDS** - I have a stock exchange update regarding Basslink acquisition, it says Bass Link acquisition update.

Leading Australian energy infrastructure business, APA Group (ASX: APA), confirms it has entered into documentation to potentially acquire Basslink Pty Ltd (Receivers and Managers Appointed)(Basslink) and agreed documentation with Hydro Tasmania and the State of Tasmania in relation to the ongoing operations of Basslink.

Does that mean that TASCORP has taken on risk on behalf of Hydro?

**Mr FERRALL** - This is not a TASCORP matter.

**Mr EDMUNDS** - If it is Hydro, doesn't that affect TASCORP? If Hydro's risk or debt exposure?

**CHAIR** - They have not taken on extra debt, have they?

**Mr FERRALL** - No.

**CHAIR** - The question is, have they taken on more debt?

**Mr EDMUNDS** - TASCORP has not taken on any extra risk with this move?

**Mr FERRALL** - No. It is a question for Hydro in terms of risk/debt creation. There is no change in TASCORP's exposure to Hydro.

## PUBLIC

**Mr EDMUNDS** - Hydro has not come through TASCORP for this?

**Mr FERRALL** - No.

**Mr EDMUNDS** - Thank you.

**CHAIR** - Along that line and it is future thinking, we know the Government is spruiking a number of major CAPEX programs, one being the stadium and the other one being the Marinus Link. What sort of impact or requirement for TASCORP to think about what might be needed to facilitate those should they be progressed?

**Mr FERRALL** - There are a set of decisions that need to be made beforehand. You have some underpinning assumptions in your question which may not hold true. It is a question of looking at the future and then TASCORP will provide funding if needed or if required by the Government. It is not something we deal with at the moment.

**Mr FERGUSON** - That is a fair way to respond. Chair, in each case with any large capital project, whether it is in the General Government sector or as part of one of the GBEs or state-owned companies, these matters would be dealt with looking at borrowings on an emerging basis. In the case of Marinus, while we have struck the terms of an agreement with Victoria and the Commonwealth, it still does need to go to FIB in approximately two years time at which point we would be engaged between the relevant businesses and TASCORP. The same in relation to the stadium on an emerging basis, but we have an expectation the state would provide half of the capital cost, but we are still looking for the Commonwealth to play a role there. When those things become financially realised at that point we would engage through TASCORP.

**CHAIR** - That is more for the Government to worry about than TASCORP at this stage? How they might be funded?

**Mr FERGUSON** - Correct.

**Mr EDMUNDS** - Going back to what we were talking about before. You have not taken on any responsibility for interest rates swaps in this arrangement, but have you ever done it previously?

**CHAIR** - The arrangement with Basslink?

**Mr EDMUNDS** - Yes.

**Mr BAKER** - The answer is, yes. We have assisted Hydro out on a number of occasions novating some swaps they had with the market, where the market wants to exit those swaps, we have stepped in and novated them to us and then created the same exposure to Hydro through ourselves on a back-to-back basis. Yes, we have facilitated. No direct exposure to Basslink per se, that some of the arrangements they have got on the back of Basslink we have assisted them for exit the market positions that they have.

**Mr EDMUNDS** - Is that something potentially on the cards if it was to have happened recently as well?

## **PUBLIC**

**Mr FERRALL** - There have been no discussions with Hydro on any of those matters at this point.

**Mr BAKER** - No; and with the Basslink matter now being resolved, it's unlikely. But once again, I think it's probably a question for Hydro.

As I say, our role here is to add value to our clients and managing that risk; so we will wait. That's part of the reason we have regular contact with clients with those sorts of exposures, just to understand whether there are ways that we can help mitigate the risk for them and the state.

**CHAIR** - If there are no further questions, we will wrap it up.

Thank you, Treasurer; you can stay or leave the room - whatever you like -and we will reconvene at 11.15 on MAIB.

Thank you for your participation here, and I thank the Chair and the CEO for their contributions on what's a fairly complex area that takes most of us a bit of getting our heads around.

**Mr FERGUSON** - Thank you Chair and committee. I think there were three questions that we said we'd come back to the committee on. If we don't have them through the day, we'll take them on notice. I look forward to staying in touch with you. I will see you at 11.15 a.m.

**The committee suspended at 10.46 a.m.**