

# UNCORRECTED PROOF ISSUE

**Wednesday 6 December 2017 - House of Assembly - Government Businesses Scrutiny  
Committee - Tasmanian Public Finance Corporation**

## HOUSE OF ASSEMBLY

## GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

**Wednesday 6 December 2017**

### MEMBERS

Mr Bacon  
Dr Broad  
Ms Dawkins  
Mr Jaensch  
Mrs Rylah (Chair)  
Mr Street (Deputy Chair)

### SUBSTITUTE MEMBERS

Mr Groom  
Ms O'Connor  
Ms White

### IN ATTENDANCE

**Hon. Peter Gutwein MP**, Treasurer

**Ministerial Office**

**Mr James Craigie**, Chief of Staff

**Tasmanian Public Finance Corporation**

**Mr Tony Ferrall**, Chair

**Mr Stephen Rochester**, Chief Executive Officer

**Mr Heath Baker**, Head of Financial Markets and Client Services\*

**Mr Ignacio Welch**, Chief Financial Officer\*

**CHAIR** - Good afternoon everyone. This is scrutiny of the Tasmanian Public Finance Corporation. Treasurer, could you kindly introduce your witnesses and provide an opening statement if you would like.

**Mr GUTWEIN** - Thank you, Chair. I will introduce Tony Ferrall, the Chair of the board of Tascorp, and Stephen Rochester, the CEO. Tascorp is established under the GBE Act 1995. Its activities cover: raising debt funds by issuing bonds and commercial paper in both domestic and international markets; lending to Tasmanian public sector clients; providing deposit facilities to support clients in managing their cash management activities; providing financial risk management advisory services to its clients; and investing specific and surplus funds to achieve acceptable risk profile and return.

In accordance with its corporate plans, Tascorp has: worked with clients to ensure their debt position funded by Tascorp was appropriate for their business; maintained a breadth of bond issues, such as refinancing risk remained diversified; met the investment needs of its clients through the provision of deposit services; established and managed the TT-Line investment replacement fund; and also established and managed the Mersey Community Hospital fund. Tascorp ensured that markets remained informed as well as to Tasmania's credit standing in Tascorp bond issue on some funding strategy. Tascorp operates in accordance with the Government's employment framework with a 2016-17 FTE equivalent of 16.4.

This a competitive market space and therefore remuneration is broadly benchmarked against incurable financial market positions, based on an independent survey by the Financial Institutions Remuneration Group. Tascorp operated profitably with a 2016-17 net profit before tax at \$27.4 million, which was favourable against budget in the previous year's return. Tascorp is well run with a low tolerance for risk and has rigorous controls in place to prevent impact of adverse market movements.

I thank, for Chairman, Mr Ferrall and his board and also the CEO and all of the staff for once again delivering its successful outcome for the business for the last financial year.

**Mr BACON** - Treasurer, is the state sector debt free?

**Mr GUTWEIN** - The state sector is net debt free, which is the first time ever I think.

**Mr BACON** - When the Premier claimed on the front page of the *Mercury* that the state sector was debt free, it is not debt free. It is net debt free?

**Mr GUTWEIN** - I looked very closely at what was quoted from the Premier and he actually said that it was net debt free.

**Mr BACON** - I have the story with me and it is telling them the state sector is debt free for the first time ever.

**Mr GUTWEIN** - I thought the lead-in comments from the *Mercury* were that the state is net debt free.

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**Mr BACON** - So it is not true to say that it is debt free, but it is true to say it is net debt free for the first time ever?

**Mr GUTWEIN** - The state is net debt free for the first time ever.

**Mr BACON** - What would you put that down to, apart from your wonderful performance personally?

**Mr GUTWEIN** - No need to put words in my mouth, Mr Bacon.

**Mr BACON** - I wanted to skip over the first 10 minutes if that was possible. If there is anything else you put it down to apart from that that would be good.

**Mr GUTWEIN** - One of the key reasons is that after coming to government we were able to instil confidence broadly in the Tasmanian community. I recall one of the professors from the university making the point that in respect of having a new majority government that the confidence index had risen dramatically about three months after we came to government. It continued to stay at a high level.

Broadly speaking, a majority government has been very good for the state. Confidence is high, we have a growing economy. There is no doubt at all that our state receipts are much stronger. Our businesses are running well and in many cases they are benefiting from the stronger economy. What we are seeing across the board is the position of both the general government sector and the total state sector, which includes all of our businesses, it has improved quite significantly. Interestingly enough, not only are we net debt free but we actually managed to have a total state sector net operating surplus and also a total state sector fiscal service.

**Mr BACON** - You just talked about the debt levels of GBEs. What are they now compared to when you came to Government?

**Mr GUTWEIN** - I would have to get a total but I can talk about a couple specifically. In terms of the Forestry Tasmania, very close. It is currently carries no debt at all and no letter of comfort. I am not sure when that last occurred but I think that is a significant of the state. It is certainly on a much more sustainable footing than what it was.

In terms of the Hydro, I believe the debt would be lower than when we came to government. We have provided the equity transfers to the Hydro and at the moment it is about \$845 million.

**Mr BACON** - What was it before?

**Mr GUTWEIN** - We have to go back to 2014.

**Mr BACON** - That is fine.

**Mr GUTWEIN** - In the main the businesses are being well run and well managed. Importantly, we are in a position where we are net debt free.

**Mr BACON** - What is the effect on the \$730 million from the Commonwealth in terms of making that calculation the money for the Mersey Community Hospital?

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**Mr GUTWEIN** - In terms of the total state sector. I do not have the TAFR in front of me but Mr Ferrall might be able to fill in it. I think even after you remove the \$730 million from the Commonwealth that was transferred in respect of the Mersey, we are still in a net debt free position.

**Mr BACON** - Once you take that out, then how much is it?

**Mr FERRALL** - I have not the total with me but I think it was -

**Mr GUTWEIN** - \$811 million, I think. Then again without having the TAFR here with me. About \$70 million or \$80 million is about right.

**Mr BACON** - You talked about the letters of comfort. You said that Sustainable Timber Tasmania is now not operating under a letter of comfort and you talked about debt levels and the appropriateness in your opening statement. Are there any GBEs with a level of debt that Tascorp a views as not appropriate?

**Mr GUTWEIN** - That is a matter for Tascorp. From the point of view of TasNetworks which carries the largest amount of debt, I think it is based on the ratios it carries. That business certainly operates without a letter of comfort. It is in a strong financial position.

**Mr BACON** - What is the debt level then of TasNetworks?

**Mr GUTWEIN** - It is currently \$1.78 million.

**Mr BACON** - In terms of appropriate debt levels for GBEs, does Tascorp have any concerns about particular GBEs?

**Mr GUTWEIN** - None that have been raised with me directly. We have letters of comfort. Hydro still has a letter of comfort in place. There are four from memory - Hydro, Tasmanian Irrigation, Tasmanian Railways and Tasracing. We used to have six which had letters of comfort - Forestry Tasmania or Sustainable Timber Tasmania, and TasPorts which had a letter of comfort that was issued in respect of the specific project of the Burnie woodchip loading facility. That has been removed.

**Mr BACON** - Could Tascorp answer whether there are GBEs with levels of debt that Tascorp think are inappropriate?

**Mr GUTWEIN** - None have been raised with me.

**Mr FERRALL** - You need to recognise Tascorp lending practice is to apply banking disciplines to our lending. You also need to recognise we do not take security either, so we are not taking a charge over the assets of the entities. When we ask for a letter of comfort from the Treasurer it has a couple of effects. One is it that effectively ensures Treasury becomes involved in the lending. We as Tascorp ask for a letter of comfort from the Treasurer, and the Treasurer then gets advice from Treasury around the lending and whether it is prudent or otherwise, but simply because we ask for a letter of comfort does not mean we don't believe the entity can support the lending. It is about making sure they keep prudent levels of debt and the Government is well aware of the debt levels they may be moving to.

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**Mr BACON** - So it is just a closer watch on their activities once they enter that realm of having a letter of comfort?

**Mr FERRALL** - We establish limits we are willing to consider for each of their entities and they are reviewed on an annual basis. If an entity maybe wanted to go beyond that limit - and they are very conservative and prudent - we would either consider it internally and say, 'We think they can support that level of debt', or we may say to the treasurer of the day, 'You need to be aware of this. We want a letter of comfort'. Treasury will provide advice as well and ultimately, if the letter of comfort is provided, Tascorp will lend.

**Ms O'CONNOR** - Treasurer, you were talking before about Forestry Tasmania no longer needing letters of comfort. At what point was the last letter of comfort withdrawn, and weren't there four letters of comfort that had been given to Forestry Tasmania over a period of time?

**Mr GUTWEIN** - Over the years there have been a number of letters of comfort with different thresholds. The last letter of comfort we had in place was \$41 million, from memory, and STT paid down its debt in October.

**Ms O'CONNOR** - From the sale of the plantation assets.

**Mr GUTWEIN** - At that time there was about \$11 million of debt and the letter of comfort was removed because there are no borrowings.

**Ms O'CONNOR** - What is Forestry Tasmania's advice to you about its financial viability in this financial year, next financial year and across the forward Estimates? Has there been any indication to you that they will need to seek another letter of comfort?

**Mr GUTWEIN** - We are going through a corporate planning process with STT at the moment and I haven't read the draft corporate plan as yet. There was a need to complete the sales process before that was submitted, so I haven't looked at it or received any advice on it. That question is more properly for the Minister for Forestry.

**Ms O'CONNOR** - With respect, it is quite properly put to you because of the amount of support from your Government and Tascorp that Forestry Tasmania has received over the years.

**Mr STREET** - Point of order, Chair. Does Ms O'Connor mean Sustainable Timber Tasmania?

**Ms O'CONNOR** - No, I will never call it that name because that is just green-washing garbage. I will never call it Sustainable Timber Tasmania - and no-one else in the community does either.

**CHAIR** - On the point of order, if the Treasurer is happy to answer the question, that is fine, but if he chooses not to answer it I will rule it out of order because it is not directly to Tascorp. It is up to you, Treasurer.

**Mr GUTWEIN** - I am not prepared to have Tascorp's estimates turned into Sustainable Timber Tasmania's estimates.

**Ms O'CONNOR** - Forestry Tasmania, page 42 -

**CHAIR** - Order.

**Mr GUTWEIN** - It is worth celebrating that at the moment there is no letter of comfort for Sustainable Timber Tasmania. I believe they have a deposit with us but they don't have any borrowings.

**Ms O'CONNOR** - Can you or Mr Ferrall explain page 42 of the annual report - the table of client advances at fair value through profit or loss - which shows in 2017, Forestry Tasmania, \$29.9 million; 2016, Forestry Tasmania, \$14.4 million. What is that table about?

**Mr GUTWEIN** - That is the amount of debt, noted here as a client advance. That is the amount of borrowings advanced to the business as at 30 June of each of those years.

**Ms O'CONNOR** - So does that mean the \$29.9 million in the 2017 table has been cleared by the revenue from the plantation sale?

**Mr GUTWEIN** - As I said, the debt was \$11 million by October so obviously Forestry Tasmania was able to pay some of that debt down and it was cleared in October.

**Ms O'CONNOR** - Sorry, it might be my own poor mathematics, Mr Ferrall, but I just need some clarity about this table to understand those numbers next to Forestry Tasmania and what they mean in the context of your description that the debt of the GBE has gone.

**Mr FERRALL** - As at 30 June 2016 Forestry Tasmania owed Tascorp \$14.4 million, and as at 30 June 2017 they owed Tascorp \$29.9 million. Subsequent to 30 June Forestry reduced that debt. When they received the proceeds of the sale their total debt to Tascorp was about \$11 million and they repaid the debt at that time. That occurred on 6 October. I cannot speak for Forestry but Forestry Tasmania's debt fluctuates through the year. They use a component of that for working capital and depending on when they receive funding for shipments that debt rises and falls through the year. As at 30 June, as I said, it was \$29.9 million, and subsequent to that they had other revenues which reduced the debt. When it was repaid it was \$11 million.

**Ms WHITE** - Treasurer, are you able to let the committee know what the cost of borrowing is at the moment for Tascorp?

**Mr GUTWEIN** - That is probably a question to Mr Rochester but there will be a range of different rates that apply. Mr Rochester can provide some details.

**Mr ROCHESTER** - It ranges from 1.5 per cent, which is the Reserve Bank's official cash rates for overnight borrowings, and in the order of 3 per cent for much longer-term borrowings, but again they vary. It is a very volatile market and is up and down but they are broadly in that range.

**Ms WHITE** - Can I ask about the Mersey Community Hospital fund? The Government received \$730 million and the funds will be invested through Tascorp with annual draw downs by way of special dividend to fund the operations of the hospital. Based on calculations by your department, Treasurer, the funds will provide for 10 years of operating costs for the Mersey on a low-return scenario, which is about 4 per cent per annum, and 12 years for the high-return scenario of 6.6 per cent, in the modelling has been done your department. Based on current projections, how long do you expect the money to last?

**Mr GUTWEIN** - The money will last into the tenth year, even in the low interest rate environment we are in at the moment.

**Mr BACON** - Is that also contingent on the size of the dividend that has to be taken out to run the hospital?

**Mr GUTWEIN** - That takes into account that the special dividend will increase by 3.5 per cent annually through that period.

**Mr BACON** - And that is what you expect the cost to run the hospital will increase by - 3.5 per cent?

**Mr GUTWEIN** - That was based on the previous agreement with the Commonwealth and the rate of indexation that was provided. I must admit we are in an unusually low interest rate environment at the moment, as we all know, and based on the return we are getting at the moment the projection is that the funds will last into the tenth year. I think it is reasonable to take the view that over the coming decade interest rates will rise; that is a given. I fully expect it will last 10 years and beyond.

**Ms WHITE** - So the calculations are based on health costs only increasing by 3.5 per cent a year for Mersey. Is that only because of the historical nature of previous agreements?

**Mr GUTWEIN** - In the broader budget obviously we have wage indexation at 2 per cent and we have parts of the health budget at 4 per cent. For the Mersey Hospital historically with the Commonwealth it has been set at an indexation rate of 3.5 per cent on the original agreement that was struck, and we have just continued that forward.

**Ms WHITE** - Did you not think to at least have a consistent rate of inflation at 4 per cent now that it is Tasmanian government owned and operated?

**Mr GUTWEIN** - Again, the singular largest expense in health is wages. That has a 2 per cent cost across the board.

**Ms WHITE** - For the 10 years?

**Mr GUTWEIN** - That is what we are forecasting for in the current budget process. There are other expenses within health we index at 4 per cent. So 3.5 per cent would seem to be historically sound and also sound to project forward.

**Ms WHITE** - Based on those assumptions you have built into your modelling, I fail to see how you can be confident it would last for 10 years when health inflation at the state level is growing at 4 per cent per annum and you have only calculated for 3.5 per cent.

**Mr GUTWEIN** - No, what I am saying is, the single largest cost in health are wages.

**Ms WHITE** - You have calculated they will not rise more than 2 per cent per annum for 10 years.

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**Mr GUTWEIN** - We have forecast those forward at 2 per cent as we do in the budget and that is the government wages policy. Health indexation on certain expenses is at a higher rate than across the general government sector and that is what we have forecast at.

**Ms WHITE** - The forecast has been based on assumptions that are very low.

**Mr GUTWEIN** - They have been based on what the current forecasts are for the current budget period. What would you like to forecast?

**Ms WHITE** - I would like to understand how you worked out it could last for up to 12 years. How are you investing the money?

**Mr FERRALL** - What is occurring is, there is an amount of money that is in the current budget which is the 78.1 which is for Mersey and that is indexed at 3.5 per cent. From a Tascorp perspective, we, as the entity, are required to pay the Government a dividend equivalent to that 78.1 and then indexed each year. On the calculations Tascorp has done, given the current investment parameters that we have set, the funds will last into the tenth year. Things will change over time; rates can move up and down but that is the current setting. The fact it will last into the tenth year, will change if we were required to pay greater than 78 indexed at 3.5 per cent. That is the requirement we are meeting at the moment from a Tascorp perspective.

From a broader budget perspective, over time, as we all know, things will change. There will be different parameters that may come in into future years. The broader budget may supplement further the Mersey hospital, if that was the government's policy of the day or it may not. In terms of the actual parameters set now, 78.1 indexed at 3.5 per cent, a payment required from Tascorp, with the investments we have made, the funds will last into the tenth year.

**Ms WHITE** - May I ask how you are investing the money?

**Mr ROCHESTER** - They are currently invested in a diverse group of fixed interest and money market investments, ranging from corporate bonds to RMBs - residential and mortgage bonds. They are all rated at the high end of investment grade and we are going through that process of acquiring assets over time.

**Ms WHITE** - What has the ROI been to date?

**Mr ROCHESTER** - I cannot answer what the ROI is at the moment; I do not have the numbers for that. It is below the 4 per cent or 5 per cent you have been talking about. It takes a while to build up to those higher rates.

**Mr GUTWEIN** - Bearing in mind we have only received the money on the second last day of June.

**Ms WHITE** - This calendar year?

**Mr GUTWEIN** - Yes. It is only a matter of months. I noted Ms O'Connor made the point that it is high risk. Tascorp has taken a very conservative approach, as you would expect them to.



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**Ms O'CONNOR** - I understand Tascorp always takes a conservative approach. The questioning here is whether it will need to be a little less conservative in order to make the Mersey money last?

**Mr FERRALL** - From a Tascorp board perspective, we would not take a less conservative approach. If a government wanted us to take a different approach, we would need directing. We have taken an approach that is, how can we ensure the capital is maintained? That you are not going into an investment that might lead to rapid fluctuations and lead to diminution of capital. We have attempted to ensure we get into the tenth year or beyond, or in fact we've optimised what we can do, but it is against a balanced set of risks. We're not willing to go into investments, which might theoretically provide a higher return but at a much greater risk and a much greater risk of volatility.

**Mr BACON** - When the Government puts forward suggestions about rates of return you don't work off that or you haven't done that modelling. That's done by the Government?

**Mr FERRALL** - Tascorp hasn't done that modelling no. Look, to be quite frank, Tascorp board did not take into account as a primary driver the Government's announcements that it would last 10 years. What we've taken into account is the balance between risk and return that we think is appropriate.

**Ms O'CONNOR** - This is on the same subject. In order to make that pool of funds last there must be short, medium and long-term investments in place. Given that we're in a very low interest rate environment there are legitimate questions about how you can make that money last for the 10 years. Is there any opportunity here to talk about the short, medium and long-term investments that Tascorp might make in order to ensure that the money lasts?

**Mr GUTWEIN** - Mr Rochester just did in regards to the rate of investment. I'm happy for him to chat that through. If I could make the point, this isn't what you would classify as a balanced portfolio that has some blue chip shares and some property, cash or fixed interest investments. This is a very safe investment mix. Mr Rochester can talk through the grade of investments that are being utilised. As I have said, over time the one thing that we do understand is that at the moment we are in an unusually low interest rate environment. Interest rates will rise over time and therefore I would expect that over time we would see potentially a greater return without increasing the risk. The types of investments that we're investing in at the moment will just simply have a higher rate of return in years to come. Mr Rochester can talk that through.

**Ms O'CONNOR** - It's been put to us that you need about a 10 per cent rate of return in order to make it last.

**Mr GUTWEIN** - No, that is just completely wrong.

**Mr BACON** - What is the expected rate of return then on the approach that you've taken?

**Ms O'CONNOR** - Currently and then maybe the projection, five years and 10 years?

**Mr ROCHESTER** - If I can go back one step. You are right in terms of the strategy is to invest in a diversified range of investments covering both fixed and floating, and different types of investments. When we were advised that funds were going to be available and they needed to be invested we put in place, basically, an interim strategy. As soon as the money can be received instead of investing it at 1.5 per cent in the cash rate, which is what you would normally get in the

bank, we could place it in short-term securities that would generate a higher return, which is probably up around the 2 per cent, so we can increase the rate of return immediately.

We then profile that rate of return over the life and then it became apparent that there was the \$78 million-odd that would be indexed at the 3.5 per cent. That changed the profile that they needed to be invested in. We then had a discussion with the board, having warehoused the funds to get what we saw as the best return that gave us the flexibility to reinvest in other securities. As time progressed we then had the discussion with the board as to what that investment strategy should be.

Our normal investment strategy is in the investment grade market and at the top end. We've gone through a process of refining that, broadening the top end of the investment rate as the strategy to invest in. That's now been finalised by the board. We're in the process of acquiring those securities as they come onto the market place.

It is not a market where you can go out and instantaneously invest \$730 million. We just have to wait until they come into the market. Our view is that it will take a period of six months to fully invest those funds. That outcome of having funds available in the tenth year is - I can't say absolutely certain, because we're dealing in markets - but the strategy in place indicates that there will be a payment in the tenth year under that strategy.

**Ms O'CONNOR** - You have a high level of confidence about that?

**Mr ROCHESTER** - Yes, a very high level of confidence.

**Ms WHITE** - What is the current rate of return?

**Mr ROCHESTER** - At the moment, because we are going through that transition, I can't be black and white about the numbers, but it is in the 3 per cent, 3 per cent-plus range, and that gets you into the tenth year. You have to form a forecast of the mix of floating and fixed rates, so if it is a floating rate it depends on the timing of increasing interest rates as we go into the future. We could well do better than that given the mix of floating rates in the portfolio but I can't predict the future, so all we can do is look at the shape of the L-curve and work out what that applies for the return - and that implies we get to a payment in the tenth year.

**Ms O'CONNOR** - For the TT-Line line vessel replacement fund - on page 46 of the annual report - the initial investment of \$40 million is notated in there. It is an \$80 million fund, is that right? Can you explain the numbers here?

**Mr GUTWEIN** - There is \$40 million in that fund and a little bit more as at 30 June. I expect there would be slightly more in that fund today and Mr Ferrall might have a more up-to-date number on that.

**Mr FERRALL** - It is \$40.5 million.

**Mr GUTWEIN** - The next \$40 million payment will come across from TT-Line, I am expecting, by about the end of the calendar year in line with the special dividend arrangements under their constitution. There will be \$80-plus million in the fund at that time. I was advised by the chair that the investment return we have received on the funds invested to date is at a higher rate than TT-Line would have been able to achieve, and that is pleasing. That is exactly what we were expecting to occur.

**Ms O'CONNOR** - So that fund by the end of this calendar year is likely to have the full \$80 million in it?

**Mr GUTWEIN** - It will have \$80-million plus some change.

**Mr BACON** - You talked before about the Mersey Community Hospital fund and a payment in the tenth year. Is there any indication of what the quantum of that payment will be?

**Mr FERRALL** - We are going through the investments at the moment and you also have to recognise that over the period we will be reinvesting and changing, so it is not possible to say exactly what the quantum of payment is.

**Mr GUTWEIN** - I hope, and it is a reasonable expectation, that interest rates more broadly in this country will rise over the next 10 years. Therefore, out of the very unusually low interest rate environment we have, in the tenth year my expectation would be that whatever the indexed requirement is at that particular time would be available and hopefully perhaps into the eleventh or twelfth year. It is crystal-ball gazing to some degree, but I want to make the point I am comforted by the fact the Tascorp board has taken a very conservative approach to this. The money is safe, it is invested sensibly, and even in the low interest rate environment we are in at the moment we get into the tenth year, which is exactly what we were planning to do.

**Mr BACON** - How do the two funds differ in the way they are treated by Tascorp?

**Mr ROCHESTER** - The Mersey fund has this \$78 million that amortises down over its life, so it has a distribution. TT-Line has a payment date where pretty well all the money is going to go out on one day, depending on what the contract arrangements are. There is some uncertainty as to what that date will be, which is a matter in the hands of the Government and the TT-Line, so we have to invest that to maximise the return up until the first likely drawdown date, but then have the flexibility to continue to maximise the return if the date proves to be after that date. So we have this variable profile and the nature of the instruments we have invested in reflect that different risk of the portfolio, whereas the Mersey one is a cold, hard amortised \$78 million that every year has to go out the door. We are matching that profile as best we can. They are broadly invested in similar instruments at the high end of investment grade but the nature and mix of those instruments change as a consequence of the different portfolios.

**Mr BACON** - How does TT-Line invest their surplus cash?

**Mr GUTWEIN** - I presume they would have a facility with their bank.

**Mr ROCHESTER** - They would put it on deposit with a bank with whatever arrangements the bank would provide to that particular body.

**Mr BACON** - So they can't invest through Tascorp?

**Mr GUTWEIN** - The objective here, Scott, as you well know, was twofold. One was to ensure we had the money available when we needed it for the purchase of the ship and the other was to ensure we had the highest possible return we could with an appropriate risk profile, which is what Tascorp is delivering.

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**Mr BACON** - Couldn't that have been done through the TT-Line?

**Mr GUTWEIN** - As you well know, albeit you voted against it - but that is probably more as a result of the historical leanings of your government whereby you spent money for purposes that should not have been spent - is that we introduced a bill to ensure these funds would be there only for the purpose of ship replacement. I think that is a very sensible approach by the Government.

**Mr BACON** - So if you had left the money with TT-Line and they invested it through Tascorp was that the other possibility?

**Mr GUTWEIN** - Again, we took the view it was more appropriately held and invested by Tascorp with a legislative lock on it, which is what we did.

**Ms WHITE** - It helps your bottom line, doesn't it?

**Mr GUTWEIN** - You want to talk about bottom lines after the hypocrisy you went on through the budget debate and then released your own budget set of numbers and did exactly what you accused me of doing, which I didn't, which was that was you spent the TT-Line money. In fact I think I might have even brought a copy of that letter.

**Mr BACON** - If the money had stayed with the TT-Line would the investment returns have been exactly the same if it went through -

**Mr GUTWEIN** - What I said at the start of this was that we have actually received a better return than TT-Line could have.

**Mr BACON** - But could TT-Line have invested through Tascorp?

**Mr GUTWEIN** - That is a hypothetical. At the end of the day they -

**Mr BACON** - It is not a hypothetical. You said you did better than they could have. Could they have done exactly the same thing?

**Mr GUTWEIN** - How TT-Line managed their cash was a matter for TT-Line and the board. How we manage this cash is to ensure we have cash available when we need it to replace the TT-Line vessels, and that is exactly what we have done.

**Mr BACON** - Can TT-Line invest through Tascorp?

**Mr GUTWEIN** - Any government business can make an investment and utilise and invest with Tascorp. I think that is a reasonable point to make.

**Mr BACON** - So they could have done it. What you said in your opening remarks is not true then. That is the point.

**Mr GUTWEIN** - The point is we have financial experts at Tascorp making judgments in regard to the TT-Line fund. What would have occurred in the past is that the board of the TT-Line, who are a very good business and very good at running ships, would have been making investment decisions. I think Tascorp is in the right position to make those sorts of decisions.

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**Ms O'CONNOR** - Treasurer, one of Tascorp's clients is the Glamorgan Spring Bay Council. Are you able to provide detail to the committee of the amount of funds loaned to Glamorgan Spring Bay Council, for what purpose, and the terms of the loan, including repayments? Do you have any concerns about Glamorgan Spring Bay Council's capacity to repay that debt, not that it will be the council repaying it, it will be the ratepayers of course?

**Mr GUTWEIN** - As at 30 June Glamorgan Spring Bay Council had advances or borrowings, if we can use that term, of \$3.5 million, and at the same time they had a deposit of just under \$900 000 with Tascorp. That's the only information I have in front of me.

**Ms O'CONNOR** - Sure, but can confirm that a letter of comfort was written about Glamorgan Spring Bay Council's borrowing?

**Mr GUTWEIN** - No.

**Ms O'CONNOR** - What are the terms of the \$3.5 million loan to Glamorgan Spring Bay Council?

**Mr GUTWEIN** - I am not certain of the duration. It might be useful if Mr Ferrall explained the benchmark that is used in making determinations about borrowings to local government. In terms of the 40 per cent, is it net revenue to lending?

**Mr FERRALL** - You are going to test me on this one.

**Mr GUTWEIN** - I am, but it is very conservative .

**Mr FERRALL** - Treasury provides advice to the Treasurer in respect of loans to local government. I will not quote the exact numbers. I cannot recall them exactly so I am not going to risk giving you a figure.

We have set up an arrangement which, through a series of metrics, ensures that loans to local governments are sustainable. That goes well back to some of the metrics the Auditor-General established as being reasonable and appropriate for local government to borrow. They relate to their revenue sources, their rates of revenue and how much they can lend. Treasury provides advice to the Treasurer if a local government wants to borrow as to whether they are within those parameters. Again, we find local government tends to indicate that they believe they are too conservative. Quite a number of councils believe they can borrow more.

**Mr GUTWEIN** - They do.

**Mr FERRALL** - Treasury advice to the Treasurer is that if you want an appropriate level of borrowings for local government they need to be within those parameters.

**Ms O'CONNOR** - When Glamorgan Spring Bay Council approached Tascorp for the loan what was the loan request for? Was it for the Tassal dam?

**Mr GUTWEIN** - I cannot recall.

## UNCORRECTED PROOF ISSUE

**Mr FERRALL** - The outstanding amount is not a single loan; it is multiple loans. That is the total outstanding that Glamorgan Spring Bay has at 30 June. There would have been a range of loans over a number of years.

**Ms O'CONNOR** - Have there been any further requests for funds for Glamorgan Spring Bay Council, given that this ratepayer-funded dam is going to cost in the order of \$4.5 million apparently?

**Mr GUTWEIN** - In regard to Glamorgan Spring Bay I have not turned anything down or accepted anything this financial year. In terms of local government a lot of approaches were made by a number of local government entities in regard to the accelerated capital programs.

**Ms O'CONNOR** - I understand that, but this is a specific question. Sorry to interrupt.

**Mr GUTWEIN** - I have not signed off on any loans over and above the \$3.5 million that is currently on the books to Glamorgan Spring Bay.

**Ms O'CONNOR** - The question that is being asked by ratepayers in Glamorgan Spring Bay is why council has been allowed to borrow funds in order to fund Tassal's dam? Ratepayers will ultimately have to pay for a private company's infrastructure.

**Mr GUTWEIN** - That is a matter for them to deal with their local council on.

**Ms O'CONNOR** - You are the local government minister.

**Mr GUTWEIN** - As it has been indicated, the funds that are advanced to Glamorgan Spring Bay at the moment are a cocktail of loans.

**Mr FERRALL** - There are nine or 10 involved.

**Mr GUTWEIN** - Nine or 10 loans are involved in that \$3.5 million that they had out as at 30 June. I do not have any of that detail with me. If the community is concerned, they should be raising that with the council.

**Ms O'CONNOR** - I am sure they are.

**Ms WHITE** - Treasurer, can you let me know what rate you lend money to these state authorities and councils at? What are the terms?

**Mr GUTWEIN** - It depends on the entity itself. It is normalised by a government guarantee fee. Some entities will have a higher rate of lending than others, that is talking about the broad suite of businesses that we have. Mr Rochester might like to explain that in more detail.

**Mr ROCHESTER** - It depends upon the term of the loan and the nature of the loan. It ranges from working rates in a bit under 2 per cent to the mid 3s depending on the nature and the term of the loan.

**Ms WHITE** - So it is between 2 and 3.5 per cent, generally speaking?

**Mr ROCHESTER** - Bearing in mind that the market is variable; it changes almost minute by minute. It also depends on the specific requirements of each particular customer and how they want to structure their loan facilities.

**Ms WHITE** - Thank you. So it is fairly consistent with commercial rates then?

**Mr ROCHESTER** - Depending on the body some of them have a neutrality fee so that would add to part of the cost. The advantage of Tascorp's operations, because of our economies of scale, rather than individual bodies competing in the market place for their funding it is centralised in one place and that would probably make it lower than the normal comparable individual outline.

**Ms WHITE** - You may have answered this already Treasurer in your response to Ms O'Connor but I was curious to know whether the Devonport City Council approached Tascorp for a loan for the Devonport Living City Project? Your response about the requirements to be met by local government may have been the reason that they were not eligible.

**Mr GUTWEIN** - It is on the public record that Devonport City council chose not to use the Tascorp facility. I think they utilised the ANZ bank.

**Ms WHITE** - That was not because you did not approve them? They opted out of choosing Tascorp facility.

**Mr GUTWEIN** - Perhaps they wanted a more sophisticated lending arrangement than we would potentially take on board. They have, in effect, as a council, almost a development authority approach to some of the development occurring there. With the ultimate drawdowns that they were looking at over a period of time, they would have not met our metrics. They were able to arrive at a position with the ANZ bank which, I understand, in light of their previous arrangements, was attractive to them.

**Mr FERRALL** - It must have been attractive to them.

**Mr GUTWEIN** - They did not come back to us.

**Mr BACON** - They got knocked back and then did not come back, or they did not get knocked back?

**Mr GUTWEIN** - They put up a proposal which that I indicated would have been difficult for us to accept as it was proposed.

**Mr BACON** - Can you tell us why that was?

**Mr GUTWEIN** - We operate within a very strict criteria of what councils would describe as very conservative benchmarks. They were able to arrive at an acceptable position with their own banker.

**Mr BACON** - Did the TT-Line invest money with Tascorp during the 2016-17 year?

**Mr GUTWEIN** - I do not know if we have.

**Mr BACON** - So did they borrow money from Tascorp?

**Mr FERRALL** - No

**Mr BACON** - On page 18 of the annual report where it says:

During 2016-17 the following clients borrowed from and or invested with Tascorp TT-Line Company Pty Ltd.

That is just for the borrowing, for the

**Mr FERRALL** - For the undrawn working capital facility that what they are referring to. They are a client, they have capacity to borrow from us for the capital facility. They did not draw anything down.

**Mr BACON** - They are a client of Tascorp and they could have invested with Tascorp in 2016-17 if they chose to, or if the Government directed them to.

**Mr GUTWEIN** - They could have put money on deposit with Tascorp. Again, and I think what is important to understand as Mr Rochester explained, they have taken a view in respect of the term and the nature of the investment with TT-Line. It is building it up over a period of time, there will come a time when it will need to be drawn. We have the experts in the business of managing money, Tascorp, making those decisions in regard to the TT-Line investments, as opposed to what would have occurred under the previous situation, which would have been the board of the TT-Line who are experts in managing a shipping passenger and transport business.

**Mr BACON** - The Government could have directed the board of TT-Line to invest the ship replacement fund through Tascorp?

**Mr GUTWEIN** - We've taken a view on that matter and we believe that the legislative locked fund that we've established is the best way to proceed with this. From the point of view of the state we know that when the money is needed that the money is going to be there.

**Ms O'CONNOR** - Minister, does TasWater have higher borrowing costs than government-owned businesses?

**Mr GUTWEIN** - We don't look at it in a punitive sense, no. I think Tascorp makes decisions, as was discussed, through the last six to nine months in regards to the debate about TasWater. We would have been able to, if we owned them, to have offered them a lower cost of funds because we wouldn't have changed the government guarantee fee.

**Ms O'CONNOR** - Just to be clear, TasWater does have higher borrowing costs than other government businesses?

**Mr GUTWEIN** - No. It has a base cost and then there is a government guarantee fee that is applied by local government itself.

**Ms O'CONNOR** - What is the differential?

**Mr GUTWEIN** - Some government businesses pay more for their debt than others. It depends on the term and the risk profile of the business. To say that all government businesses -



**Ms O'CONNOR** - TasWater is not a government business.

**Mr GUTWEIN** - No, TasWater is a business that borrows from Tascorp under commercial terms.

**Ms O'CONNOR** - That's right. We're trying to get some clarity here about the borrowing costs for TasWater, given their infrastructure plans, and the borrowing costs of government business enterprises and what the differential is?

**Mr GUTWEIN** - What I'm saying is if you consider the stable of government businesses that we have no one business would be the same in respect of their total cost of debt.

**Ms O'CONNOR** - Sure. That's not the question.

**Mr GUTWEIN** - In terms of TasWater, again, their terms of borrowing and the risk profile of the business would be taken into account by Tascorp in terms of what they pay.

**Ms O'CONNOR** - Would it be possible to get an answer from the Chair about the borrowing costs for TasWater relative to other GBEs?

**Mr FERRALL** - We don't adopt any punitive approaches to TasWater if that's what you are asking.

**Ms O'CONNOR** - No, I wouldn't think Tascorp would, this is different.

**Mr FERRALL** - Effectively, depending on the term of the borrowing that TasWater wanted, so they're our client and they want borrowing for X period of time. We would go to the market and get a cost of funds for that. We would apply a margin, so Tascorp applies a margin to its borrowings. We wouldn't apply any different margin to TasWater than we would apply to any other government business in similar circumstances, so it's the same position. We would on-lend it to TasWater.

The point the Treasurer was making is that irrespective of TasWater, local government currently effectively charges TasWater a guarantee fee. The point that the Treasurer was making was that in the scenario where the Government took over TasWater the Government had indicated that it would not charge TasWater a guarantee fee and therefore TasWater would get a lower cost in funds.

**Ms O'CONNOR** - What is that guarantee fee worth in total in a given financial year?

**Mr FERRALL** - It varies, about 45 points.

**Ms O'CONNOR** - Can we confirm that TasWater's level of debt as at 30 June was \$488 million; is that correct? Page 42.

**Mr BACON** - Is there anyone that doesn't pay that fee, the guarantee fee?

**Mr FERRALL** - Councils themselves.

**Ms O'CONNOR** - Councils don't pay the guarantee fee, but TasWater pays the guarantee fee.

**Mr GUTWEIN** - Councils are not -

**Mr FERRALL** - General government borrowing, we don't charge because it would just go around in circles.

**Mr GUTWEIN** - It is the competitive neutrality issue. Councils are not competing against other entities within their municipality. There is no need to normalise their rate of borrowings.

**Ms O'CONNOR** - What is the cost of the guarantee fee to TasWater in the last financial year?

**Mr GUTWEIN** - We don't charge that. Local government charges that. I am certain that when I presented it to local government earlier this year, the differential between the cost of debt of the state-owned business with the Government not charging a government guarantee fee was going to be about a 15 per cent reduction.

**Ms O'CONNOR** - It is the Government that charges the government guarantee fee?

**Mr GUTWEIN** - No, local government are charging TasWater.

**Ms O'CONNOR** - Has TasWater approached Tascorp for further funding in the past year?

**Mr GUTWEIN** - They are a commercial business.

**Mr FERRALL** - We have been dealing with them as normal. They have been approaching us. We review all our entities that borrow at least on an annual basis. They approach us, they present their business plan and indicate to us what their borrowing requirements may be over the next few years. We have been dealing with them as normal.

**Ms O'CONNOR** - That has not stalled during the legislative process and the political kerfuffle?

**Mr FERRALL** - No. Regardless of the politics, we deal with the clients as they present to us.

**Mr BACON** - Do other GBEs pay that at the moment?

**Mr FERRALL** - Yes.

**Mr BACON** - Why?

**Mr FERRALL** - The guarantee fees originally came about from a competitive neutrality point of view. Where you had government businesses that were competing in the market and because of the borrowing capacity of government, we can get a lower borrowing than those entities would on a standalone basis. The guarantee fee was effectively -

**Mr GUTWEIN** - If you use Hydro as an example that is operating in the national market, if they were getting a lower rate of funds from borrowing via the state government facility of Tascorp, you can imagine how other businesses operating in the market would view that. It is normalised through a government guarantee fund.

## UNCORRECTED PROOF ISSUE

**Ms O'CONNOR** - Treasurer, \$142 000 in incentive payments were made in the past financial year. Are you able to outline the specified performance goals? Why were Tascorp executives paid these monies? What was it about the organisation's operation in the past year that justified \$142 000 in publicly-funded incentive payments?

**Mr GUTWEIN** - They did a very good job and met their requirements.

**Mr FERRALL** - We have a very detailed remuneration framework within Tascorp. Bonuses are designed to drive a reward for outstanding individuals. Business unit performance is taken into account and the individual performance and the overall performance of Tascorp. In the 2016-17 year, we had a highly profitable year compared to budget. The figure is \$27 million versus \$14 million budgeted. There was an element of the performance bonus that related to that over-budget performance.

We also take into account the values and behaviours of individuals, how they align with the corporate direction and the corporate philosophy. In terms of issues such as errors, as an example, from an organisation like Tascorp, you do not want to have errors in dealing. They can be a real problem if you have errors in dealing. If we see errors in dealing, people would be less likely to get a performance bonus. There is a whole range of factors.

The approach is that the performance requirements are set out. To get a performance bonus you have to significantly exceed those performance requirements at an individual and a unit level. The CEO goes through that and we measure the performance of all the individuals and he makes a recommendation to the board. We discuss, debate and work through those things and ultimately make a decision on the performance bonuses.

**CHAIR** - The time for the scrutiny of Tascorp has concluded. I thank everyone for their attendance. I thank the witnesses and thank the Treasurer.

**The Committee adjourned at 3 p.m.**