7.1 GOVERNMENT BORROWINGS AND GROSS DEBT

2006-07 Priorities

The Government's priorities for 2006-07 are:

- maintaining low levels of debt;
- the maintenance of the Territory's AAA credit rating; and
- the ongoing management of the Government's debt portfolio.

Annual Rating Exercise

The last annual credit rating review was undertaken in 2005 by the credit rating agency Standard & Poor's. The ACT's 'AAA' (triple A) local currency credit rating and 'A-1+' foreign currency rating were affirmed by Standard & Poor's on 18 November 2005.

The 'AAA' and 'A-1+' ratings are the highest ratings assigned by Standard & Poor's. Standard & Poor's assessed the outlook for the ACT's finances as continuing to be "Stable".

The Standard & Poor's credit rating is an annual report providing a basis for comparison between the financial position of Australian States and Territories.

The next formal credit rating review process will commence in the second half of 2006.

Debt Management

The majority of Territory borrowings are undertaken by the Department of Treasury, through the Central Financing Unit (CFU). The Territory has adopted a centralised approach to its debt raising and debt management activities to ensure that competitive borrowing rates are achieved, commensurate with the Territory's credit rating. In some instances lease finance structures have been established between an external financier and a Territory agency.

Debt issuance is facilitated through the $1 billion (multi-note) Domestic Debt Programme. The debt programme constitutes a standardised master agreement defining important terms and conditions about notes issued under the programme. The programme provides the ability for the Territory to issue new borrowings in a variety of forms in the domestic markets in an efficient manner. In addition, the Territory utilises financial instruments, such as interest rate swaps, to manage interest rate exposures.

The CFU uses an external Finance and Investment Advisory Board and a specialist risk management adviser to develop and implement borrowing objectives, strategies, benchmarks and to provide other general borrowing and risk management advice as required.

Key Debt Liability Management Principles

The key debt liability management principles are:

- debt management objectives: meeting the budgeted interest cost in the current year and budget forecast estimates;
- debt management approach: ACT Treasury to raise and manage debt on a centralised basis for the Territory; general government debt liabilities to be managed against a debt benchmark that is independent of financial assets;
- debt management benchmark: comprising a modified duration target of three years with policy range of ±0.5 years and limiting the amount of floating rate debt to a maximum of 30 per cent in total (or a position of 13.3 per cent over benchmark); and
- debt funding instruments: limited to commercial paper, electronic promissory notes, medium term notes, floating rate notes, and inflation linked bonds issued in the domestic financial market.

These principles provide for the continued prudent management of the Territory's borrowings to ensure all risks associated with the Territory's borrowings are understood and managed to the greatest extent possible.

The above principles apply only to general government debt, excluding housing related debt. Housing debt is provided by the Commonwealth Government at concessional fixed interest rates and is therefore managed separately. Although the Territory undertakes borrowings on behalf of ACTEW, the management of that debt is undertaken by ACTEW in accordance with its risk and liquidity requirements.

Outstanding Total Territory Borrowings

Figure 7.1.1 summarises the outstanding levels of borrowings separated between Commonwealth attributed debt and Territory raised debt.

Figure 7.1.1
ACT External Borrowings: 1989-90 to 2006-07 and the Forward Estimates

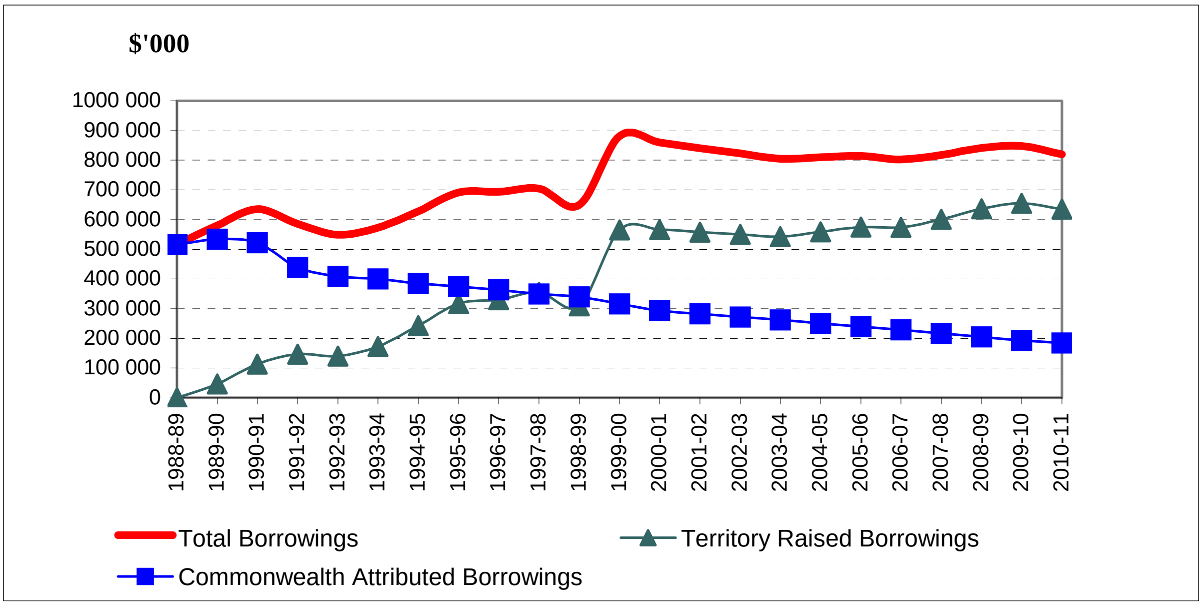

Figure 7.1.2 summarises the outstanding levels of borrowings divided between the General Government Sector and the Public Trading Enterprise Sector.

Figure 7.1.2
ACT External Debt: 1989-90 to 2006-07 and the Forward Estimates

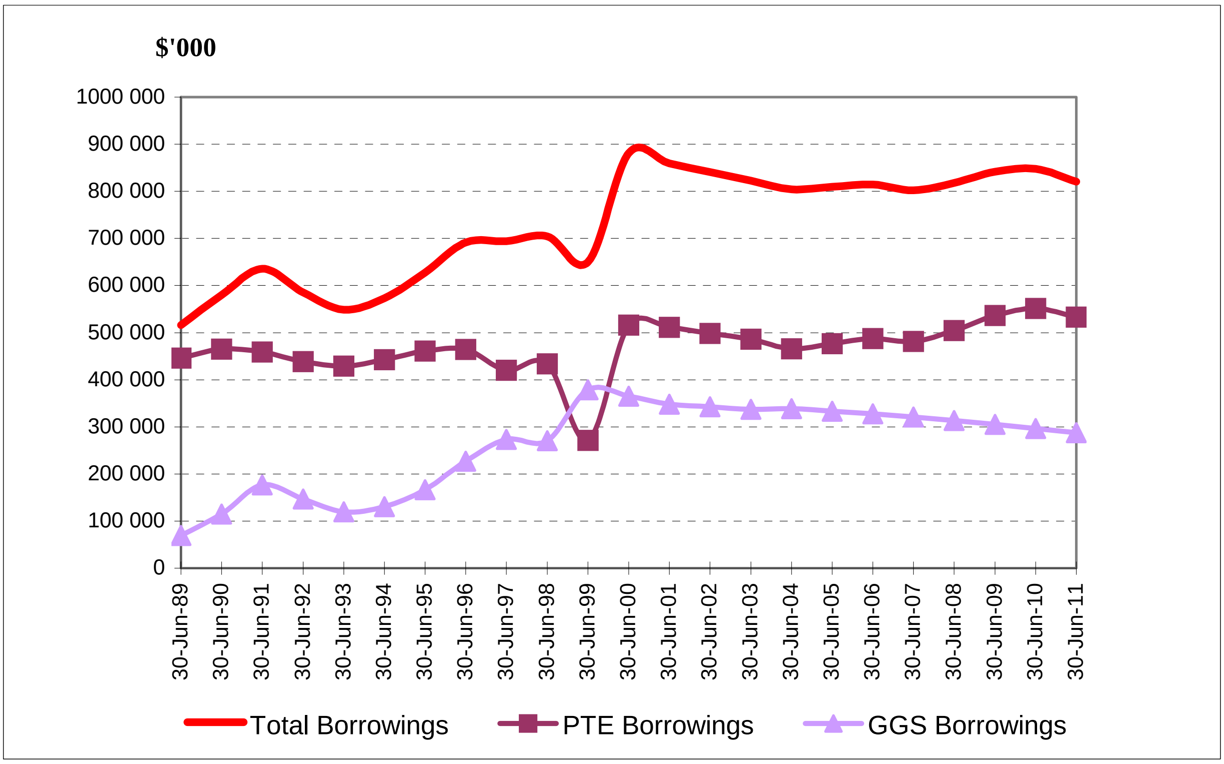

Table 7.1.1 summarises the estimated principal and interest payments to be made on Territory debt in the 2006-07 financial year.

Table 7.1.1
Territory Borrowing Estimates 2006-07

	Estimated Debt as at 30-Jun-06 $'000	Estimated Principal Repayments $'000	Estimated Interest Repayments $'000	Estimated Total Repayments $'000	Estimated Debt as at 30-Jun-07 $'000
General Government Sector					
- *Commonwealth Attributed Borrowings*					
- Public Account					
- Fixed Rate Land & Buildings	9,423	554	1,184	1,738	8,869
- Treasury (Home Ownership)	97,913	2,124	4,406	6,530	95,789
- *Territory Raised Borrowings*					
- Public Account					
- Electronic Promissory Notes (1) (4)	190,831	0	11,476	11,476	190,831
- Gvt Bldgs Sub Lease/Under Lease	29,178	3,993	2,153	6,146	25,185
Sub Total	**327,345**	**6,671**	**19,219**	**25,890**	**320,674**
Public Trading Enterprise Sector					
- *Commonwealth Attributed Borrowings*					
- Housing (Home Rental)	114,783	4,437	5,165	9,602	110,346
- ACTEW (Water & Sewerage)	17,628	4,092	1,886	5,978	13,536
- *Territory Raised Borrowings*					
- ACTEW					
- Indexed Annuity Bonds (3)	234,699	6,979	15,016	21,995	227,720
- Electronic Promissory Notes (1) (2)	120,000	0	6,972	6,972	130,000
Sub Total	**487,110**	**15,508**	**29,039**	**44,547**	**481,602**
TOTAL	**814,455**	**22,179**	**48,258**	**70,437**	**802,276**

1 Electronic promissory notes are a form of short-term debt funding instrument. Previously commercial paper was the short-term funding instrument used. Electronic promissory notes are a new, more efficient form of funding instrument. Funding is undertaken on 90 day roll-over terms.
2 Budget provides for new borrowings of $25 million in June 2006 and $10 million in June 2007.
3 Indexed annuity bonds are fully amortising bonds with quarterly annuity payments increasing in line with the CPI.
4 In May 2006, a series of interest rate swaps were undertaken to hedge $150 million of the $191 million variable interest rate exposure associated with Electronic Promissory Notes, resulting in a fixed interest rate. The estimated interest payment is therefore the weighted variable and fixed rate cost.

Total Territory Debt Maturity Table

Table 7.1.2 details interest rates, maturity dates and the estimated principal outstanding at the time of maturity of the Territory debt portfolio as at 30 June 2006.

Table 7.1.2
Territory Borrowing Maturity

	Interest Rate	Fixed/Floating	Maturity Date	Principal Outstanding at 30-Jun-06 $'000	Principal Outstanding at Maturity $'000
General Government Sector					
- Commonwealth Attributed Borrowings					
- Public Account					
- Fixed Rate Land & Buildings	12.57%	Fixed	15 June 2023	9,423	-
- Treasury (Home Ownership)	4.50%	Fixed	2039-40	97,913	-
- Territory Raised Borrowings					
- Public Account					
- Electronic Promissory Notes (1) (3)	5.96%	Fixed/Floating	na	190,831	190,831
- Gvt Bldgs Sub Lease/Under Lease	7.50%	Fixed	24 October 2011	29,178	-
Public Trading Enterprise Sector					
- Commonwealth Attributed Borrowings					
- Housing (Home Rental)	4.50%	Fixed	2041-42	114,783	-
- ACTEW (Water & Sewerage)	11.36%	Fixed	31 Dec 2010	17,628	-
- Territory Raised Borrowings					
- ACTEW					
- Indexed Annuity Bonds	3.74% + CPI	Floating (CPI)	17 April 2020	234,699	-
- Electronic Promissory Notes (2)	5.67%	Floating	31 October 2011	120,000	-

1 The floating interest rate displayed is the prevailing interest rate. The next due roll-over/rate reset date is 8 August 2006.
2 The floating interest rate displayed is the prevailing interest rate. The next due roll-over/rate reset date is 19 July 2006.
3 In May 2006, a series of interest rate swaps were undertaken to hedge $150 million of the $191 million variable interest rate exposure associated with Electronic Promissory Notes, resulting in a fixed interest rate. The estimated interest rate is therefore the weighted variable and fixed rate cost.

Total Territory Borrowing Interest Rate Exposure

Table 7.1.3 provides a summary of the estimated weighted average interest rate of Territory borrowings as well as fixed/floating percentage weightings.

Table 7.1.3
Interest Rate Exposure

		Estimated at 30 June 2006	Estimated at 30 June 2007
Weighted Average Interest Rate	GGS	5.85%	5.83%
	PTE	5.88%	5.86%
	Total	5.87%	5.85%
Percentage of Portfolio Fixed Rate	GGS	88%	87%
	PTE	27%	26%
	Total	51%	50%
Percentage of Portfolio Floating Rate	GGS	12%	13%
	PTE	73%	74%
	Total	49%	50%