

5.2 GOVERNMENT BORROWINGS AND GROSS DEBT

2008-09 Priorities

The Government's priorities for 2008-09 are:

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

Credit Rating

Standard & Poor's (Australia) Pty Ltd is contracted by the Territory to provide independent credit rating services.

The last annual credit rating review was undertaken in 2007. The ACT's 'AAA' (triple A) local currency credit rating and 'A-1+' foreign currency rating were affirmed by Standard & Poor's on 10 September 2007.

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 positions of Australian States and Territories.

The next formal credit rating review process will commence in the second half of 2008.

Debt Management

The majority of Territory borrowings are undertaken by the Department of Treasury. 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 Domestic Debt Issuance Program. The debt program comprises a standardised Note Deed Poll defining important terms and conditions about notes issued under the program, a Dealer Agreement and an Information Memorandum. The program 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.

Treasury uses a specialist risk management adviser to develop and implement borrowing objectives, strategies and 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: 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 a policy range of ± 0.5 years and limiting the amount of floating rate debt to a maximum of 30 per cent in total; 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.

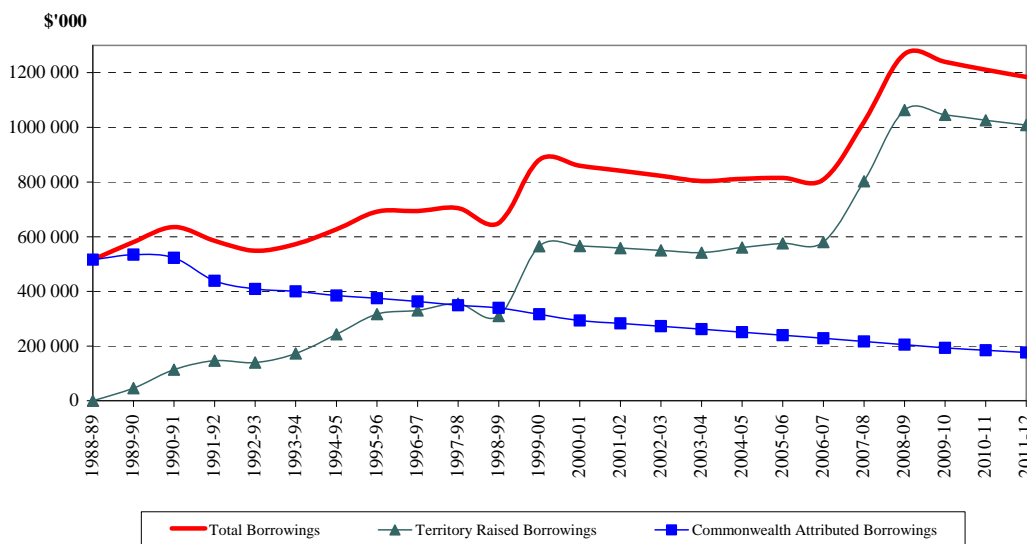
These principles provide for the continued prudent management of the Territory's borrowings to ensure all risks associated with the Territory's borrowings are understood and managed to the greatest extent possible.

The above principles apply only to general government debt, excluding Housing ACT and ACTEW related debt. Housing ACT 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 5.2.1 summarises the outstanding levels of borrowings separated between Commonwealth attributed debt and Territory raised debt.

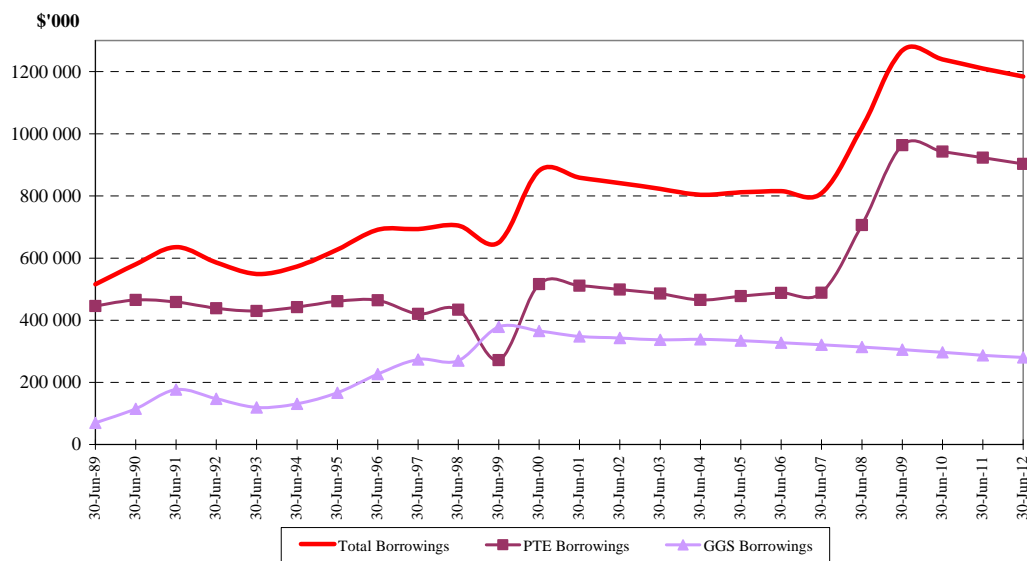
Figure 5.2.1
ACT External Borrowings: 1989-90 to 2008-09 and the Forward Estimates



Note: The increase in Territory raised borrowings from 2007-08 to 2011-12 represents new borrowings attributable to ACTEW of \$235 million (2007-08) and \$275 million (2008-09) to fund water infrastructure projects.

Figure 5.2.2 summarises the outstanding levels of borrowings divided between the General Government Sector and the Public Trading Enterprise Sector.

Figure 5.2.2
ACT External Debt: 1989-90 to 2008-09 and the Forward Estimates



Note: The increase in PTE borrowings from 2007-08 to 2011-12 represents new borrowings attributable to ACTEW of \$235 million (2007-08) and \$275 million (2008-09) to fund water infrastructure projects.

Table 5.2.1 summarises the estimated principal and interest payments to be made on Territory debt in the 2008-09 financial year.

**Table 5.2.1
Territory Borrowing Estimates 2008-09**

	Estimated Debt as at 30-Jun-08 \$'000	Estimated Principal Repayments \$'000	Estimated Interest Repayments \$'000	Estimated Total Repayments \$'000	Estimated New Borrowings \$'000	Estimated Debt as at 30-Jun-09 \$'000
General Government Sector						
- Commonwealth Attributed Borrowings						
- Public Account						
- Fixed Rate Land & Buildings	8,315	554	1,045	1,599	0	7,761
- Treasury (Home Ownership)	93,569	2,320	4,211	6,531	0	91,249
- Territory Raised Borrowings						
- Public Account						
- Electronic Promissory Notes ^{1,2}	190,977	0	12,458	12,458	0	190,977
- Gvt Bldgs Sub Lease/Under Lease	20,663	5,092	1,460	6,552	0	15,571
Sub Total	313,524	7,966	19,174	27,140	0	305,558
Public Trading Enterprise Sector						
- Commonwealth Attributed Borrowings						
- Housing (Home Rental)	105,797	4,705	4,761	9,466	0	101,091
- ACTEW (Water & Sewerage)	9,444	4,092	957	5,049	0	5,352
- Territory Raised Borrowings						
- ACTEW						
- Indexed Annuity Bonds ³	521,309	9,769	30,069	39,838	275,000	786,540
- Electronic Promissory Notes ^{1,4}	70,000	0	7,387	7,387	0	70,000
Sub Total	706,550	18,566	43,174	61,740	275,000	962,984
TOTAL	1,020,074	26,532	62,348	88,880	275,000	1,268,542

Notes:

1. Electronic promissory notes are a form of short-term debt funding instrument. Funding is undertaken on 90 day roll-over terms.
2. 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.
3. Indexed annuity bonds are fully amortising bonds with quarterly annuity payments increasing in line with the CPI. The estimated outcome at 30 June 2008 reflects a new \$300 million borrowing in June 2008. The estimated outcome at 30 June 2009 reflects new borrowings of \$275 million in June 2009.
4. Estimated outcome at 30 June 2008 reflects a repayment of \$65 million in June 2008 (which is refinanced by new Indexed Annuity Bonds of \$300 million in June 2008).

Total Territory Debt Maturity Table

Table 5.2.2 details interest rates, maturity dates and the estimated principal outstanding at the time of maturity of the Territory debt portfolio as at 30 June 2008.

**Table 5.2.2
Territory Borrowing Maturity**

	Interest Rate	Fixed/ Floating	Maturity Date	Principal Outstanding at 30-Jun-08 \$'000	Principal Outstanding at Maturity \$'000
General Government Sector					
- Commonwealth Attributed Borrowings					
- Public Account					
- Fixed Rate Land & Buildings	12.57%	Fixed	15 June 2023	8,315	0
- Treasury (Home Ownership)	4.50%	Fixed	2039-40	93,569	0
- Territory Raised Borrowings					
- Public Account					
- Electronic Promissory Notes ^{1,2}	6.28%	Fixed/Floating	na	190,977	190,831
- Gvt Bldgs Sub Lease/Under Lease	7.50%	Fixed	24 October 2011	20,663	0
Public Trading Enterprise Sector					
- Commonwealth Attributed Borrowings					
- Housing (Home Rental)	4.50%	Fixed	2041-42	105,797	0
- ACTEW (Water & Sewerage)	11.36%	Fixed	31 Dec 2010	9,444	0
- Territory Raised Borrowings					
- ACTEW					
- Indexed Annuity Bonds ³	3.74% + CPI	Floating (CPI)	17 April 2020	221,309	0
- Indexed Annuity Bonds ⁴	3.00% + CPI	Floating (CPI)	Est. 2040	300,000	0
- Electronic Promissory Notes ⁵	7.80%	Floating	31 October 2011	70,000	0

Notes:

1. The floating interest rate displayed is the prevailing interest rate (refer note 3 below). The next due roll-over/rate reset date is 8 May 2008.
2. 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.
3. Series 1: face value \$250 million; interest rate of 3.74% plus CPI; and maturity date of 17 April 2020.
4. Series 2: terms are not established as at the time of presentation of this 2008-09 Budget, however it is estimated that they will be in the order of: face value \$300 million; interest rate of 3.00% plus CPI; and maturity date of between 2040 and 2050.
5. The floating interest rate displayed is the prevailing interest rate. The next due roll-over/rate reset date is 21 July 2008.

