

7.1 ACT GOVERNMENT BORROWINGS AND GROSS DEBT

Overview

This chapter provides details of the Territory's gross debt position, including disaggregation for the general government and public trading enterprise sectors.

Highlights

- no new general government borrowings in 2003-04 and the forward years;
- AAA credit rating reaffirmed in January 2003;
- a full review of the Government's borrowing policies, strategies and financial benchmarking commenced in 2002-03;
- total outstanding borrowings reduced by \$19.6m in 2002-03; and
- total outstanding borrowings will be further reduced by \$17.9m in 2003-04.

Annual Rating Exercise

In January 2003, Standard and Poors Australian Ratings affirmed the Territory's long-term rating at 'AAA' and its 'A-1+' short-term rating. The Territory's long-term and short-term foreign currency ratings have also been upgraded to 'AAA/Stable/A-1+', which reflect the sovereign credit risk associated with the foreign currency rating on the Commonwealth of Australia. The Commonwealth's foreign currency ratings were upgraded in February 2003 by Standard and Poors.

The Territory's ratings continue to reflect its very low level of financial liabilities and strong ongoing budgetary performance.

Background

All new Territory borrowings are undertaken by the Department of Treasury, through the Central Financing Unit (CFU), on behalf of the Territory. 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.

Historically, new market borrowings have only been undertaken to raise funds for the Territory Banking Account or specifically for the Territory Owned Corporation, ACT Electricity and Water Corporation (ACTEW). Loans to Territory Authorities and Government Departments are provided as part of the annual budget appropriation process.

At the commencement of self-government in 1989, a 'notional' level of borrowings was attributed to the Territory. The Territory's new borrowings commenced from 1989-90. The Territory has utilised its borrowing programs to meet General Government Sector budgetary shortfalls, provide funding to ACTEW and to also refinance maturing borrowings for which there has been limited capacity for retirement.

The Territory currently has two established borrowing programs from which it is able to raise new borrowings or to refinance existing borrowings: a \$500m domestic commercial paper program which is a short-term floating rate facility; and a \$500m domestic term debt program which enables the issuance of debt for terms in excess of twelve months on either a fixed or floating rate basis, or a combination of the two.

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

Outstanding Borrowings

The maintenance of conservative fiscal management programs since self-government has resulted in borrowing levels for the Territory being well contained, averaging around the \$600m level until 1999-2000. The budget strategy in 1999-2000 included a requirement for ACTEW to make a \$300m capital distribution to the General Government Sector. ACTEW required new borrowings of \$265m to enable the payment to be made.

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 2002-03 and the Forward Estimates

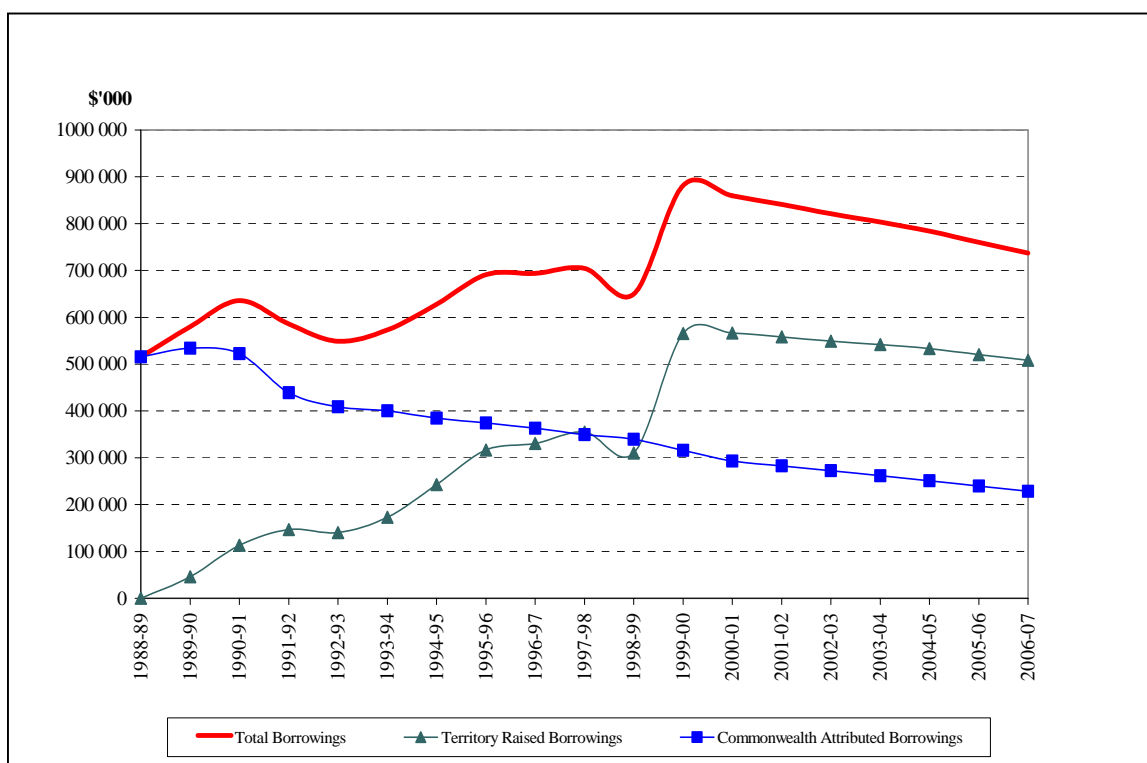


Figure 7.1.2 summarises the outstanding levels of borrowings separated between the General Government Sector and the Public Trading Enterprise Sector. During 1998-99, the Home Loan portfolio was transferred to the Department of Treasury and therefore, there was a reclassification of the borrowings from PTE to GGS. The increase in PTE borrowings during 1999-2000 resulted from ACTEW borrowing funds to enable it to make a capital distribution to the General Government Sector.

Figure 7.1.2
ACT External Debt: 1989-90 to 2002-03 and the Forward Estimates

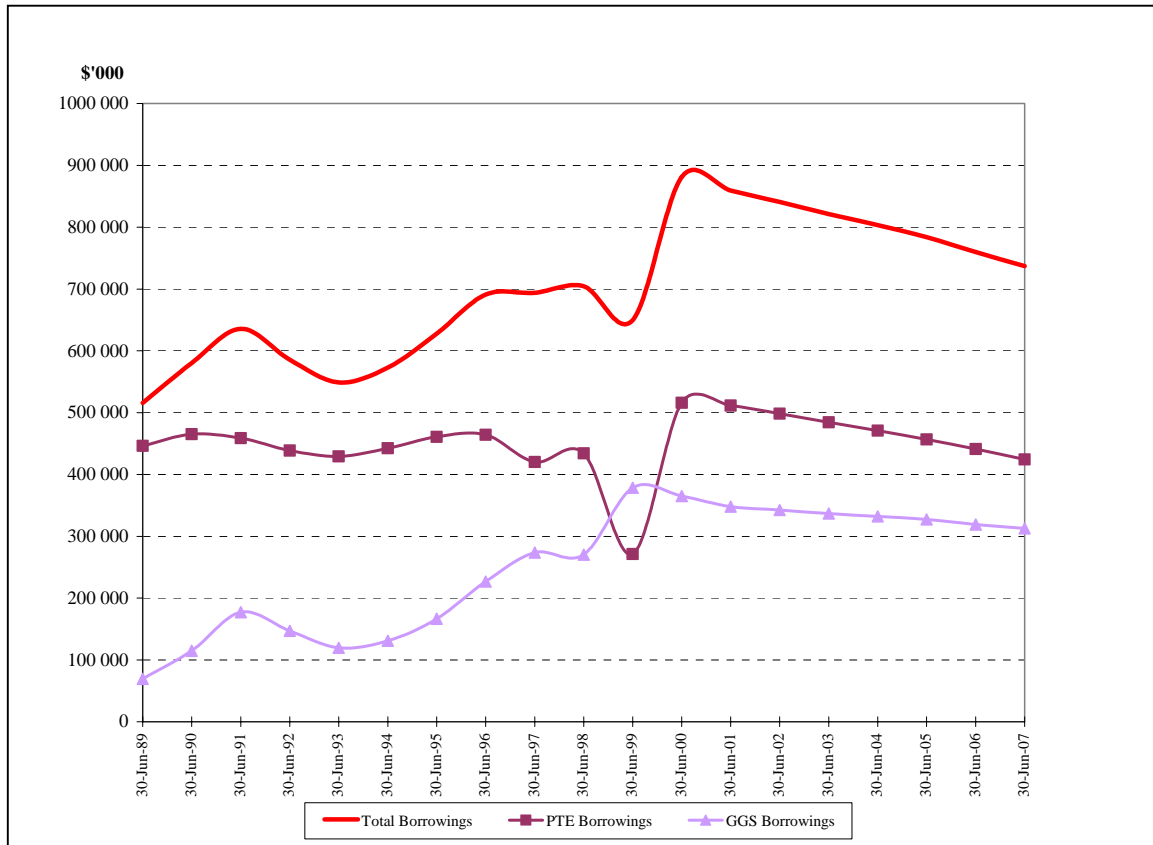


Table 7.1.1 summarises the estimated principal and interest payments to be made on Territory debt in the 2003-04 financial year.

**Table 7.1.1
Territory Borrowing Estimates 2003-04**

	Estimated Debt as at 30-Jun-03 \$'000	Estimated Principal Repayments \$'000	Estimated Interest Repayments \$'000	Estimated Total Repayments \$'000	Estimated Debt as at 30-Jun-04 \$'000
General Government Sector					
<i>Commonwealth Attributed Borrowings</i>					
DUS (Land & Buildings)	4 269	214	537	751	4 055
Treasury (Home Ownership)	103 753	1 861	4 669	6 530	101 892
<i>Territory Raised Borrowings</i>					
Public Account					
- Inscribed Stock ⁽¹⁾	52 070	0	3 947	3 947	52 345
- Commercial Paper (Line 1) ⁽²⁾	138 211	0	6 911	6 911	138 211
Other (Property Group)	38 449	2 704	2 879	5 583	35 745
Sub Total	336 752	4 779	18 942	23 722	332 248
Public Trading Enterprise Sector					
<i>Commonwealth Attributed Borrowings</i>					
ACTION Authority (Land & Buildings)	6 817	341	857	1 198	6 476
Housing (Home Rental)	127 607	4 182	5 742	9 924	123 425
ACTEW (Water & Sewerage)	29 904	4 092	3 281	7 373	25 812
<i>Territory Raised Borrowings</i>					
ACTEW					
- Indexed Annuity Bonds ⁽³⁾	250 128	4 780	15 667	20 447	245 348
- Commercial Paper (Line 2)	70 000	0	3 500	3 500	70 000
Sub Total	484 456	13 395	29 047	42 442	471 061
TOTAL	821 208	18 174	47 989	66 164	803 309

* Totals may not add due to rounding

- (1) The increase of outstanding principal is due to the amortisation of the inscribed stock during the year.
The original issue of stock was at a discount to the face value.
- (2) Represents borrowings funded by commercial paper on 90 day roll-over terms.
- (3) Indexed annuity bonds are fully amortising bonds with quarterly annuity payments increasing in line with the CPI.

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 2003.

Table 7.1.2
Territory Borrowing Maturity

	Interest Rate	Fixed / Floating	Maturity Date	Principal Outstanding at 30-Jun-03 \$'000	Principal Outstanding at Maturity \$'000
General Government Sector					
<i>Commonwealth Attributed Borrowings</i>					
DUS (Land & Buildings)	12.57%	Fixed	15 June 2023	4 269	0
Treasury (Home Ownership)	4.50%	Fixed	2039-40	103 753	0
<i>Territory Raised Borrowings</i>					
Public Account					
- Inscribed Stock	8.75%	Fixed	15 July 2005	52 070	50 000
- Commercial Paper (Line 1) ⁽¹⁾	4.70%	Floating	na	138 211	138 211
Other (Property Group)	7.50%	Fixed	24 October 2011	38 449	0
Public Trading Enterprise Sector					
<i>Commonwealth Attributed Borrowings</i>					
ACTION Authority (Land & Buildings)	12.57%	Fixed	15 June 2023	6 817	0
Housing (Home Rental)	4.50%	Fixed	2041-42	127 607	0
ACTEW (Water & Sewerage)	11.36%	Fixed	31 Dec 2010	29 904	0
<i>Territory Raised Borrowings</i>					
ACTEW					
- Indexed Annuity Bonds	3.74% + CPI	Floating (CPI)	17 April 2020	250 128	0
- Commercial Paper (Line 2) ⁽²⁾	4.76%	Floating	31 October 2011	70 000	0

(1) The floating interest rate displayed is the rate outstanding at 3 April 2003. The next due roll-over date is 12 May 2003.

(2) The floating interest rate displayed is the rate outstanding at 3 April 2003. The next due roll-over date is 22 April 2003.

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 2003	Estimated at 30 June 2004
Weighted Average Interest Rate	GGS	5.68%	5.91%
	PTE	5.97%	6.00%
	Total	5.85%	5.96%
Percentage of Portfolio Fixed Rate	GGS	59%	58%
	PTE	34%	33%
	Total	56%	56%
Percentage of Portfolio Floating Rate	GGS	41%	42%
	PTE	66%	67%
	Total	44%	44%