

8.1 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

- maintained the Government's commitment to no new general government borrowings in 2004-05 and the forward years;
- AAA credit rating reaffirmed in November 2003;
- completed a full review of the Government's borrowing policies, strategies and financial benchmarking in 2003-04, with new arrangements to be implemented from 1 July 2004;
- total outstanding borrowings reduced by \$18.6m in 2003-04; and
- total outstanding borrowings will increase by a net \$6m in 2004-05.

Annual Rating Exercise

In November 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 were also affirmed at 'AAA/Stable/A-1+', which reflect the sovereign credit risk associated with the foreign currency rating on the Commonwealth of Australia.

As announced by Standard and Poors, 'the ratings of the Territory are supported by: an extremely strong balance sheet, with a low level of financial obligations; adequate, although easing, fiscal performance; and a demonstrated ability to successfully manage a degree of structural fiscal inflexibility'.

Background

The majority of 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. In some instances lease finance structures are established between the external financier and the Territory agency.

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.

Review of Liability Management Framework

In 2003, the Territory commenced a comprehensive review of its debt liability management, including the development of clear borrowing management policies, financial benchmark targets and the debt raising processes. The review was undertaken with the assistance of Macquarie Risk Advisory Services (MRAS). The review was completed in 2004. The broad outcomes of the review are:

- the establishment of clear debt management objectives, including objectives such as meeting budget interest cost in current year, and budget forecast estimates and protecting the ratio of Net Financial Liabilities to Revenues;
- a defined Liability Management Approach such as the ACT Treasury continuing to raise debt on a centralised basis and adopting a more strategic approach to debt management; and
- the establishment of a Debt Liability Management Benchmark to enable actual debt management performance to be measured against predetermined objectives.

The completion of the debt liability management review has resulted in the development of a clear borrowing policy, including objectives, strategies and risk tolerances with the aim of minimising the costs of Government borrowings and reducing financial exposures.

It is expected that the new arrangements will ensure 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 extent possible.

Outstanding Borrowings

Figure 8.1.1 summarises the outstanding levels of borrowings separated between Commonwealth attributed debt and Territory raised debt.

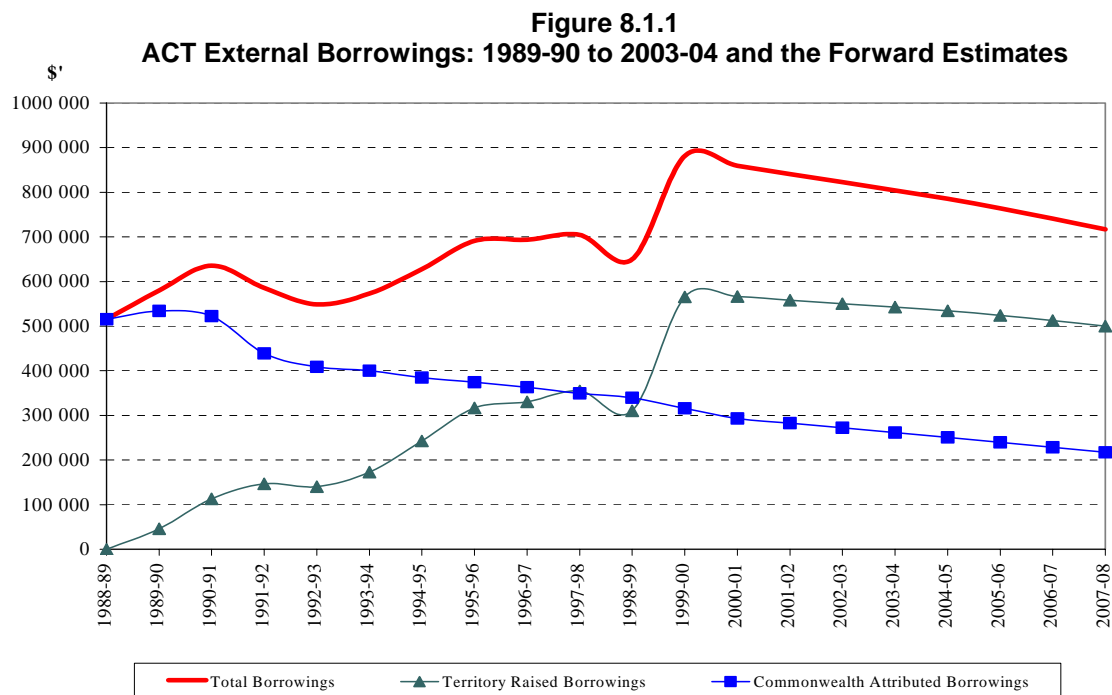


Figure 8.1.2 summarises the outstanding levels of borrowings separated between the General Government Sector and the Public Trading Enterprise Sector. During 1998-99, the Home Loan portfolio was transferred to the Department of Treasury and therefore, there was a reclassification of the borrowings from 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 8.1.2
ACT External Debt: 1989-90 to 2003-04 and the Forward Estimates

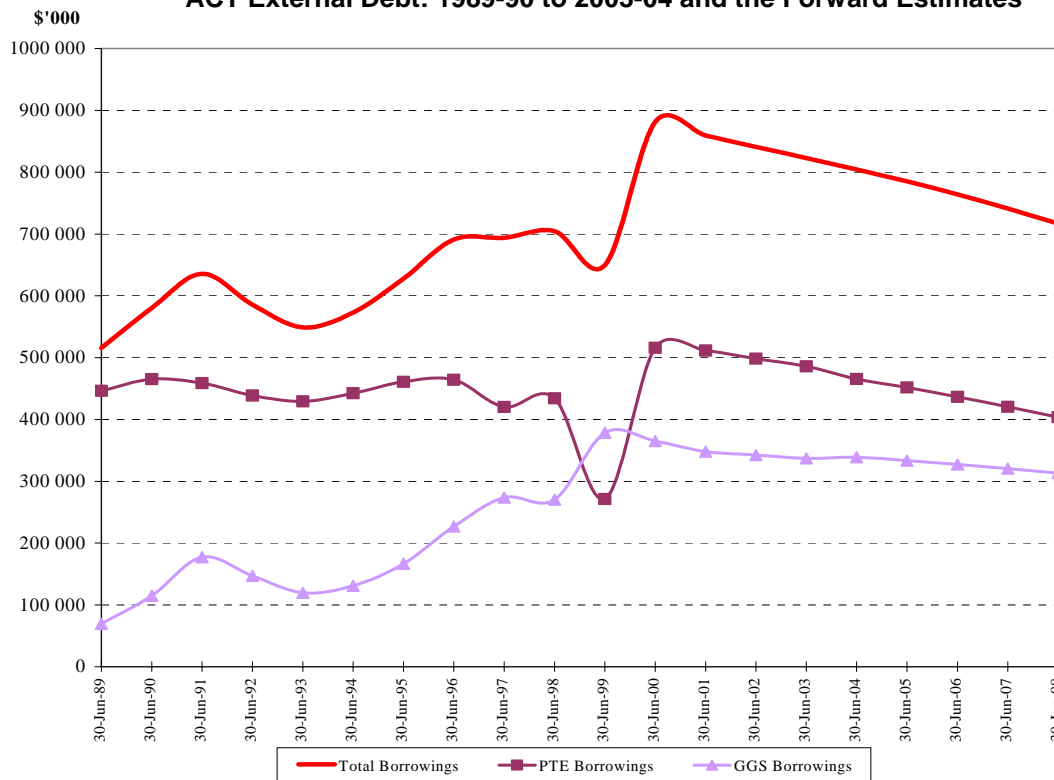


Table 8.1.1 summarises the estimated principal and interest payments to be made on Territory debt in the 2004-05 financial year.

**Table 8.1.1
Territory Borrowing Estimates 2004-05**

	Estimated Debt as at 30-Jun-04 \$'000	Estimated Principal Repayments \$'000	Estimated Interest Repayments \$'000	Estimated Total Repayments \$'000	Estimated Debt as at 30-Jun-05 \$'000
General Government Sector					
<i>Commonwealth Attributed Borrowings</i>					
- Territory Public Account					
> Fixed Rate Land & Buildings	10 531	554	1 324	1 878	9 977
- Dept. Treasury (Home Loan)	101 892	1 946	4 585	6 531	99 946
<i>Territory Raised Borrowings</i>					
- Territory Public Account					
> Inscribed Stock ⁽¹⁾	52 345	0	3 947	3 947	52 620
> Commercial Paper ⁽²⁾	138 211	0	7 740	7 740	138 211
> Gvt Bldgs Sub Lease/Under lease	35 745	3 067	2 698	5 765	32 678
Sub Total	338 724	5 567	20 293	25 860	333 432
Public Trading Enterprise Sector					
<i>Commonwealth Attributed Borrowings</i>					
- Housing (Home Rental)	123 425	4 286	5 554	9 840	119 139
- ACTEW (Water & Sewerage)	25 812	4 092	2 816	6 908	21 720
<i>Territory Raised Borrowings</i>					
- ACTEW					
> Indexed Annuity Bonds ⁽³⁾	246 332	5 545	15 270	20 815	240 787
> Commercial Paper ⁽⁴⁾	70 000	0	3 920	3 920	95 000
Sub Total	465 569	13 923	27 560	41 483	476 646
TOTAL	804 293	19 489	47 853	67 343	810 078

* 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.
- (4) Represents borrowings funded by commercial paper on 90 day roll-over terms.

Territory Debt Maturity Table

Table 8.1.2 details interest rates, maturity dates and the estimated principal outstanding at the time of maturity of the Territory debt portfolio as at 30 June 2004.

Table 8.1.2
Territory Borrowing Maturity

	Interest Rate	Fixed / Floating	Maturity Date	Principal Outstanding at 30-Jun-04 \$'000	Principal Outstanding at Maturity \$'000
General Government Sector					
<i>Commonwealth Attributed Borrowings</i>					
- Territory Public Account					
> Fixed Rate Land & Buildings	12.57%	Fixed	15 June 2023	10 531	0
- Dept. Treasury (Home Loan)	4.50%	Fixed	2039-40	101 892	0
<i>Territory Raised Borrowings</i>					
- Territory Public Account					
> Inscribed Stock	8.75%	Fixed	15 July 2005	52 345	52 620
> Commercial Paper ⁽¹⁾	5.41%	Floating	na	138 211	138 211
> Gvt Bldgs Sub Lease/Under lease	7.50%	Fixed	24 October 2011	35 745	0
Public Trading Enterprise Sector					
<i>Commonwealth Attributed Borrowings</i>					
- Housing (Home Rental)	4.50%	Fixed	2041-42	123 425	0
- ACTEW (Water & Sewerage)	11.36%	Fixed	31 Dec 2010	25 812	0
<i>Territory Raised Borrowings</i>					
- ACTEW					
> Indexed Annuity Bonds	3.74% + CPI	Floating (CPI)	17 April 2020	246 332	0
> Commercial Paper ⁽²⁾	5.40%	Floating	31 October 2011	70 000	0

(1) The floating interest rate displayed is the rate outstanding at 9 February 2004. The next due roll-over date is 10 May 2004.

(2) The floating interest rate displayed is the rate outstanding at 19 April 2004. The next due roll-over date is 19 July 2004.

Territory Borrowing Interest Rate Exposure

Table 8.1.3 provides a summary of the estimated weighted average interest rate of Territory borrowings as well as fixed/floating percentage weightings.

**Table 8.1.3
Interest Rate Exposure**

		Estimated at 30 June 2004	Estimated at 30 June 2005
Weighted Average Interest Rate	GGS	6.10%	6.16%
	PTE	5.94%	5.93%
	Total	6.01%	6.03%
Percentage of Portfolio Fixed Rate	GGS	59%	59%
	PTE	32%	31%
	Total	43%	43%
Percentage of Portfolio Floating Rate	GGS	41%	41%
	PTE	68%	69%
	Total	57%	57%

