

6.2 GOVERNMENT BORROWINGS AND GROSS DEBT

2007-08 Priorities

The Government's priorities for 2007-08 are:

- maintaining low levels of debt;
- the maintenance of the Territory's AAA credit rating; and
- the 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 mid-2006. The ACT's 'AAA' (triple A) local currency credit rating and 'A-1+' foreign currency rating were affirmed by Standard & Poor's on 23 October 2006.

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 2007.

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 \$1 billion (multi-note) Domestic Debt Programme. The debt programme comprises 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.

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 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.

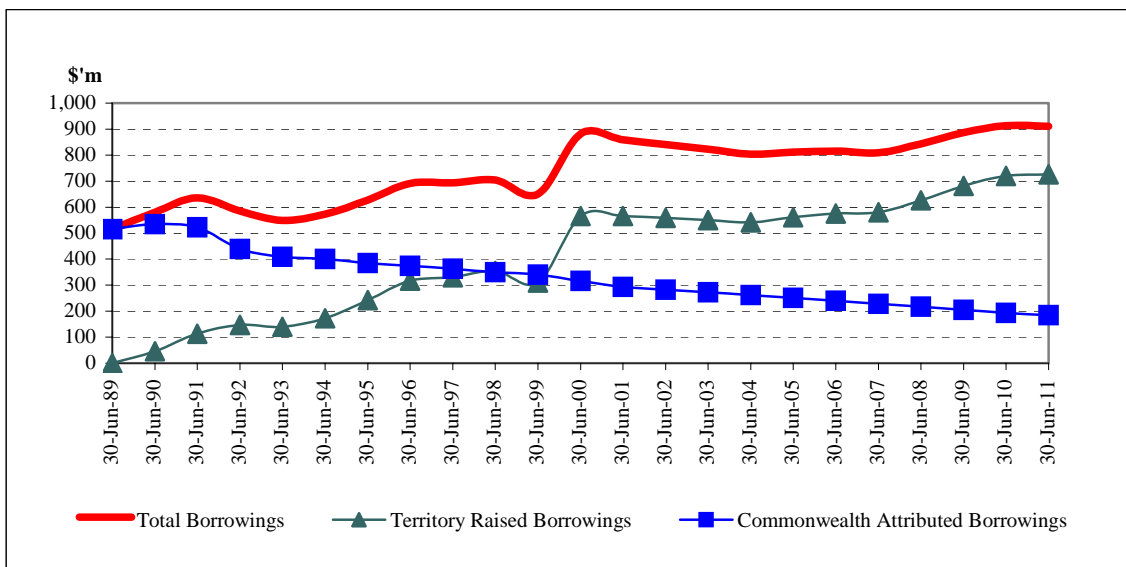
These principles provide for the continued prudent management of the Territory's borrowings to ensure all risks associated with the Territory's borrowings are understood and managed to the greatest extent possible.

The above principles apply only to general government debt, excluding housing related debt. Housing debt is provided by the Australian 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 6.2.1 summarises the outstanding levels of borrowings separated between Commonwealth attributed debt and Territory raised debt.

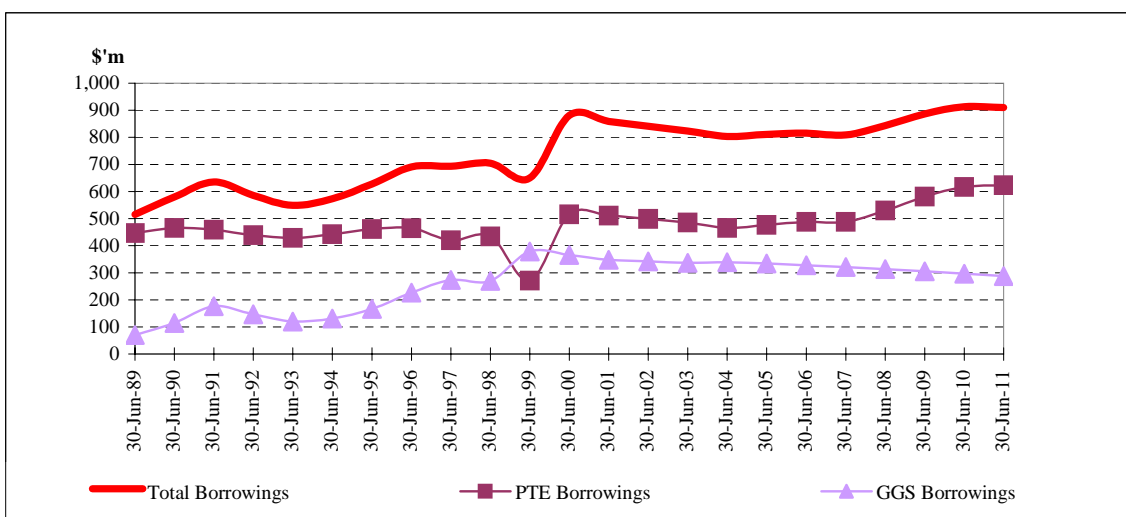
Figure 6.2.1
ACT External Borrowings: 1989-90 to 2007-08 and the Forward Estimates



Note: The increase in Territory raised borrowings from 2006-07 to 2010-11 represents new borrowings attributable to ACTEW of \$15 million, \$60 million, \$70 million, \$55 million and \$25 million.

Figure 6.2.2 summarises the outstanding levels of borrowings divided between the General Government Sector and the Public Trading Enterprise Sector.

Figure 6.2.2
ACT External Debt: 1989-90 to 2007-08 and the Forward Estimates



Note: The increase in PTE borrowings from 2006-07 to 2010-11 represents new borrowings attributable to ACTEW of \$15 million, \$60 million, \$70 million, \$55 million and \$25 million.

Table 6.2.1 summarises the estimated principal and interest payments to be made on Territory debt in the 2007-08 financial year.

**Table 6.2.1
Territory Borrowing Estimates 2007-08**

	Estimated Debt as at 30-Jun-07 \$'000	Estimated Principal Repayments \$'000	Estimated Interest Repayments \$'000	Estimated Total Repayments \$'000	Estimated Debt as at 30-Jun-08 \$'000
General Government Sector					
- Commonwealth Attributed Borrowings					
- Public Account					
- Fixed Rate Land & Buildings	8,869	554	1,115	1,669	8,315
- Treasury (Home Ownership)	95,789	2,220	4,311	6,531	93,569
- Territory Raised Borrowings					
- Public Account					
- Electronic Promissory Notes ^{(1) (4)}	190,977	0	11,858	11,858	190,977
- Gvt Bldgs Sub Lease/Under Lease	25,185	4 522	1,823	6,345	20,663
Sub Total	320,820	7,296	19,106	26,402	313,524
Public Trading Enterprise Sector					
- Commonwealth Attributed Borrowings					
- Housing (Home Rental)	110,346	4,549	4,966	9,515	105,797
- ACTEW (Water & Sewerage)	13,536	4,092	1,421	5,513	9,444
- Territory Raised Borrowings					
- ACTEW					
- Indexed Annuity Bonds ⁽³⁾	229,192	9,818	12,740	22,558	219,374
- Electronic Promissory Notes ^{(1) (2)}	135,081	0	9,100	9,100	195,081
Sub Total	488,155	18,460	28,227	46,686	529,696
TOTAL	808,975	25,756	47,333	73,089	843,220

1. Electronic promissory notes are a form of short-term debt funding instrument. Funding is undertaken on 90 day roll-over terms.

2. Budget provides for new borrowings of \$15 million in June 2007 and \$60 million in June 2008.

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 payments is therefore the weighted variable and fixed rate cost.

Total Territory Debt Maturity Table

Table 6.2.2 details interest rates, maturity dates and the estimated principal outstanding at the time of maturity of the Territory debt portfolio as at 30 June 2007.

**Table 6.2.2
Territory Borrowing Maturity**

	Interest Rate	Fixed/ Floating	Maturity Date	Principal Outstanding at 30-Jun-07 \$'000	Principal Outstanding at Maturity \$'000
General Government Sector					
- Commonwealth Attributed Borrowings					
- Public Account					
- Fixed Rate Land & Buildings	12.57%	Fixed	15 June 2023	8,869	0
- Treasury (Home Ownership)	4.50%	Fixed	2039-40	95,789	0
- Territory Raised Borrowings					
- Public Account					
- Electronic Promissory Notes ⁽¹⁾⁽³⁾	6.10%	Fixed/Floating	na	190,977	190,831
- Gvt Bldgs Sub Lease/Under Lease	7.50%	Fixed	24 October 2011	25,185	0
Public Trading Enterprise Sector					
- Commonwealth Attributed Borrowings					
- Housing (Home Rental)	4.50%	Fixed	2041-42	110,346	0
- ACTEW (Water & Sewerage)	11.36%	Fixed	31 Dec 2010	13,536	0
- Territory Raised Borrowings					
- ACTEW					
- Indexed Annuity Bonds	3.74% + CPI	Floating (CPI)	17 April 2020	229,192	0
- Electronic Promissory Notes ⁽²⁾	6.41%	Floating	31 October 2011	135,081	0

1. The floating interest rate displayed is the prevailing interest rate. The next due roll-over/rate reset date is 8 August 2007.

2. The floating interest rate displayed is the prevailing interest rate. The next due roll-over/rate reset date is 19 July 2007.

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

**Table 6.2.3
Interest Rate Exposure**

		Estimated at 30 June 2007	Estimated at 30 June 2008
Weighted Average Interest Rate	GGS	5.91%	5.96%
	PTE	6.04%	6.08%
	Total	5.99%	6.03%
Percentage of Portfolio Fixed Rate	GGS	87%	87%
	PTE	25%	22%
	Total	50%	46%
Percentage of Portfolio Floating Rate	GGS	13%	13%
	PTE	75%	78%
	Total	50%	54%

