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

- Maintaining the Government's commitment to no new general government borrowings in 2005-06 and the forward years.
- Affirmation for the Territory's AAA credit rating in November 2004.
- Establishing a new $1 billion (multi-note) Domestic Debt Issuance Program for the management of the existing debt.
- Reducing total outstanding borrowings by $21.1m in 2005-06.

Annual Rating Exercise

On 4 November 2004, the credit rating agency Standard & Poor's affirmed the ACT's 'AAA' (triple A) local currency credit rating and also reaffirmed its 'A-1+' foreign currency rating.

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 ACT's 'AAA' rating reflects a strong financial position and good fiscal management.

The press release issued by Standard & Poor's noted:

- "…(economic and financial) risk is mitigated by the government's history of prudent forecasting, which already builds in a degree of downside risk"; and
- "as a result of the strong balance sheet and the government's commitment to fiscal goals, the ACT could absorb a fairly severe weakening in its financial profile without threatening its 'AAA' rating."

Background

The majority of 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 an external financier and a 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 refinance maturing borrowings for which there has been limited capacity for retirement.

During 2004-05 the Territory established a new $1 billion (multi-note) Domestic Debt Issuance Program, replacing the former $500m domestic commercial paper program and $500m domestic debt issuance program. The new program reflects current financial market standards and provides the ability for the Territory to issue new borrowings in a variety of forms in the domestic markets.

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.

Key Debt Liability Management Principles

The key debt liability management principles established by the Territory following a review in 2003-04 are:

- debt management objectives: meeting budgeted interest cost in the current year and budget forecast estimates; and protecting the ratio of Net Financial Liabilities to Revenues;
- debt management approach and style: 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; and a reactive and strategic style;
- debt management benchmark: is a risk adjusted 'stock based' diversified benchmark to be addressed over time, comprising a duration target of 3 years with policy range of ±0.5 years and limiting the amount of floating rate debt to 30% in total (or a position of 13.3% 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 will 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.

Outstanding 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 2004-05 and the Forward Estimates

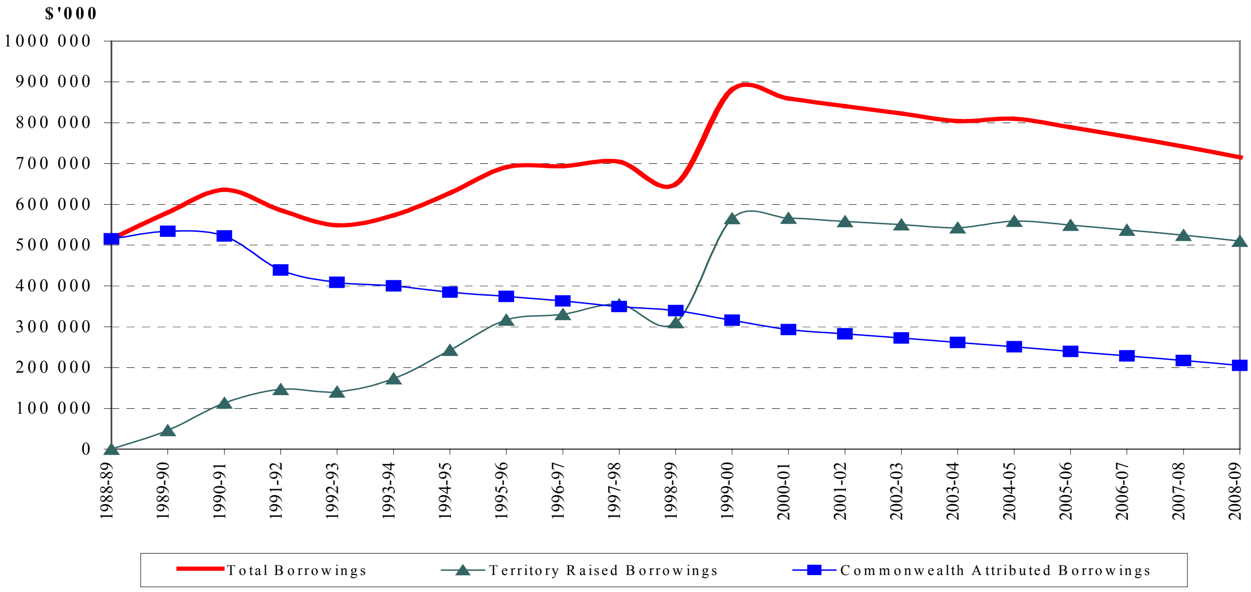

Figure 7.1.2 summarises the outstanding levels of borrowings separated between the General Government Sector and the Public Trading Enterprise Sector. During 1998-99, the Home Loan portfolio was transferred to the Department of Treasury and therefore was reclassified from PTE to GGS. The increase in 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 2004-05 and the Forward Estimates

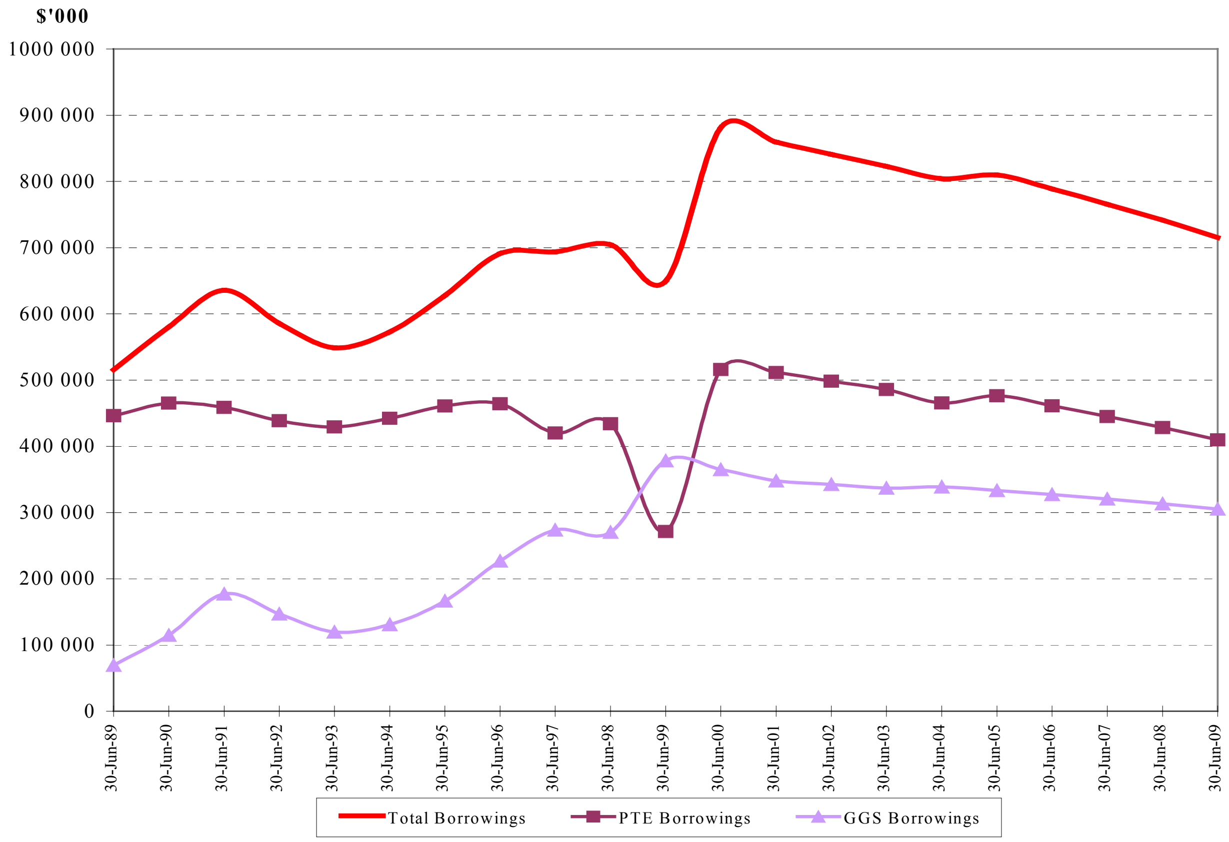

Table 7.1.1 summarises the estimated principal and interest payments to be made on Territory debt in the 2005-06 financial year.

Table 7.1.1
Territory Borrowing Estimates 2005-06

	Estimated Debt as at 30-Jun-05 $'000	Estimated Principal Repayments $'000	Estimated Interest Repayments $'000	Estimated Total Repayments $'000	Estimated Debt as at 30-Jun-06 $'000
General Government Sector					
Commonwealth Attributed Borrowings					
- Territory Public Account					
- Fixed Rate Land & Buildings	9 977	554	1 254	1 808	9 423
- Dept. Treasury (Home Ownership)	99 946	2 033	4 498	6 531	97 913
Territory Raised Borrowings					
- Territory Public Account					
- Inscribed Stock (1)	52 620	0	1 973	1 973	0
- Electronic Promissory Notes (2), (3)	138 211	0	10 483	10 483	190 831
- Gvt Bldgs Sub Lease/Under lease	32 678	3 499	2 453	5 952	29 179
Sub Total	**333 432**	**6 086**	**20 661**	**26 747**	**327 346**
Public Trading Enterprise Sector					
Commonwealth Attributed Borrowings					
- Housing (Home Rental)	119 139	4 356	5 361	9 717	114 783
- ACTEW (Water & Sewerage)	21 720	4 092	2 351	6 443	17 628
Territory Raised Borrowings					
- ACTEW					
- Indexed Annuity Bonds (5)	240 455	6 587	14 758	21 345	233 868
- Electronic Promissory Notes (2),(4)	95 000	0	5 605	5 605	95 000
Sub Total	**476 314**	**15 035**	**28 075**	**43 110**	**461 278**
TOTAL	**809 745**	**21 122**	**48 736**	**69 858**	**788 624**

** Totals may not add due to rounding*

(1) The inscribed stock debt matures on 15 July 2005 and will be repaid. The repayment will be refinanced by a new electronic promissory note issue.
(2) 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.
(3) The increase in outstanding electronic promissory notes at 30 June 2006 is due to the refinancing of the matured inscribed stock - refer note 1.
(4) The budget provides for new borrowings of $25m in June 2005 on behalf of ACTEW.
(5) 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 2005.

Table 7.1.2
Territory Borrowing Maturity

	Interest Rate	Fixed / Floating	Maturity Date	Principal Outstanding at 30-Jun-05 $'000
General Government Sector				
Commonwealth Attributed Borrowings				
- Territory Public Account				
- Fixed Rate Land & Buildings	12.57%	Fixed	15 June 2023	9 977
- Dept. Treasury (Home Ownership)	4.50%	Fixed	2039-40	99 946
Territory Raised Borrowings				
- Territory Public Account				
- Inscribed Stock	8.75%	Fixed	15 July 2005	52 620
- Electronic Promissory Notes	5.80%	Floating	N/A	138 211
- Government Buildings Sub Lease/Under lease	7.50%	Fixed	24 October 2011	32 678
Public Trading Enterprise Sector				
Commonwealth Attributed Borrowings				
- Housing (Home Rental)	4.50%	Fixed	2041-42	119 139
- ACTEW (Water & Sewerage)	11.36%	Fixed	31 Dec 2010	21 720
Territory Raised Borrowings				
- ACTEW				
- Indexed Annuity Bonds	3.74% + CPI	Floating (CPI)	17 April 2020	240 455
- Electronic Promissory Notes	5.80%	Floating	31 October 2011	95 000

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 2005	Estimated at 30 June 2006
Weighted Average Rate	GGS	6.25%	5.82%
	PTE	5.95%	5.93%
	Total	6.07%	5.88%
Percentage of Portfolio Fixed Rate	GGS	59%	42%
	PTE	30%	29%
	Total	42%	34%
Percentage of Portfolio Floating Rate	GGS	41%	58%
	PTE	70%	71%
	Total	58%	66%