

## **5.2 GOVERNMENT BORROWINGS AND GROSS DEBT**

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### **2009-10 Priorities**

The Government's priorities for 2009-10 are:

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

### **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 2008. The ACT's 'AAA' (triple A) local currency credit rating and 'A-1+' foreign currency rating were affirmed by Standard & Poor's on 23 September 2008.

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 2009.

### **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;
- The debt management benchmark: 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.

The debt management benchmark comprising a modified duration target of three years with a policy range of  $\pm 0.5$  years has been discontinued. The debt management policy was developed in 2005. Due to the impact of recent changes in market conditions and fluctuating interest rates of recent years, Treasury will undertake a review of the debt management policy and benchmarks during 2009.

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.

### *General Government Sector*

The 2009-10 Budget anticipates new general government sector borrowing for capital purposes of up to \$400 million in June 2011. These are the first new general government sector borrowings since 1996-97.

The Territory has a strong balance sheet and very low levels of debt. The borrowing will partially finance a record four year capital program. The capital program is aimed at increasing the productive capacity of the economy and support jobs.

The borrowings are based on the cash profile over the period from June 2011 to June 2013. New borrowings will only be raised to the extent necessary in the context of the cash and liquidity management of the cash flows of the Territory Banking Account and will be repaid as projected cash flows improve, which is expected to be outside the Budget and Forward Estimate period.

The debt servicing obligation on borrowings of \$400 million will be in the order of \$17.7 million in a full year.

### *Public Trading Enterprise Sector*

The Territory-owned Corporation ACTEW is responsible for the management of public assets to provide sustainable water and wastewater services in the ACT region and to ensure a safe and reliable water supply to the ACT and the region.

There will be an ongoing borrowing program to fund the major water security projects and the general capital expenditure program. The key elements of the program include:

- the enlarged Cotter Dam;
- Murrumbidgee to Googong pipeline;
- Tantangara transfer; and
- Googong Dam spillway.

The Water Security Borrowing Program commenced in the 1999-00 financial year. Between 1999-00 and 2007-08, new borrowings raised by Treasury and on-lent to ACTEW Corporation total \$630 million.

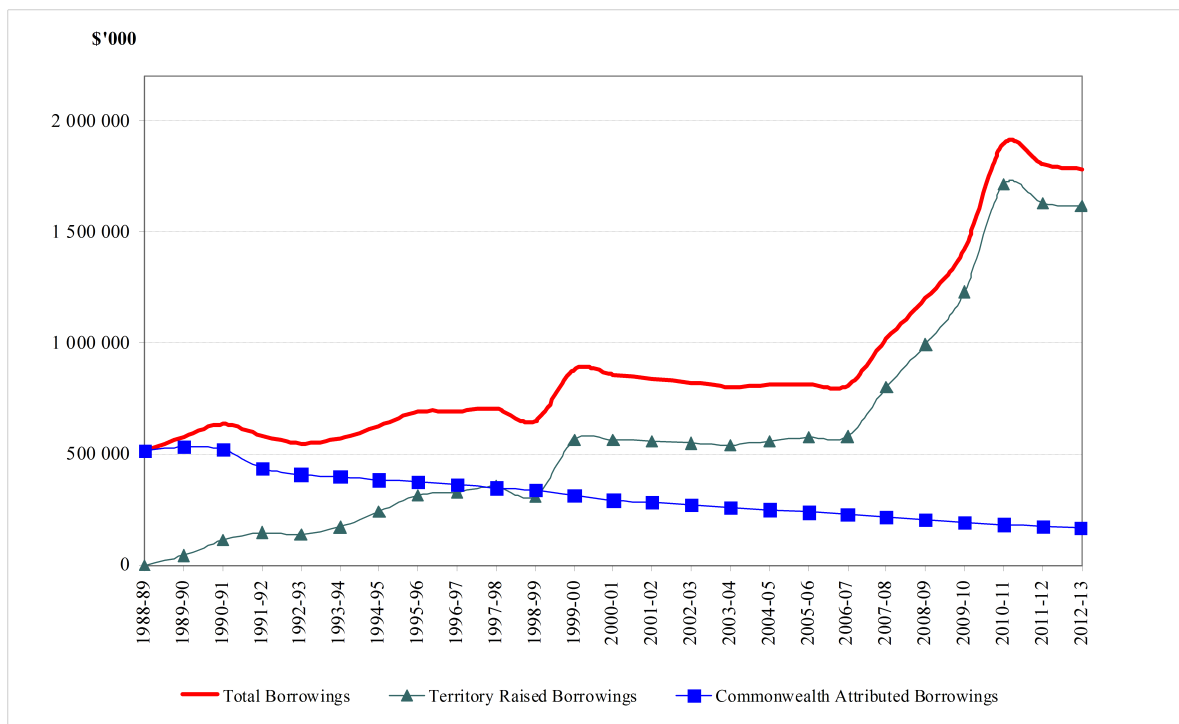
The estimated outcome for 2008-09 is further new borrowings of \$200 million. It is also anticipated that there will be a requirement of new borrowings across the forward years (2009-10: \$250 million, and 2010-11: \$100 million).

The servicing and repayment of this debt is allowed for in the determination of prices in this sector. As these projects generate long-term benefits to the community, the use of debt finance is appropriate as it distributes the burden equitably across beneficiaries over time.

## 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 2009-10 and the Forward Estimates**

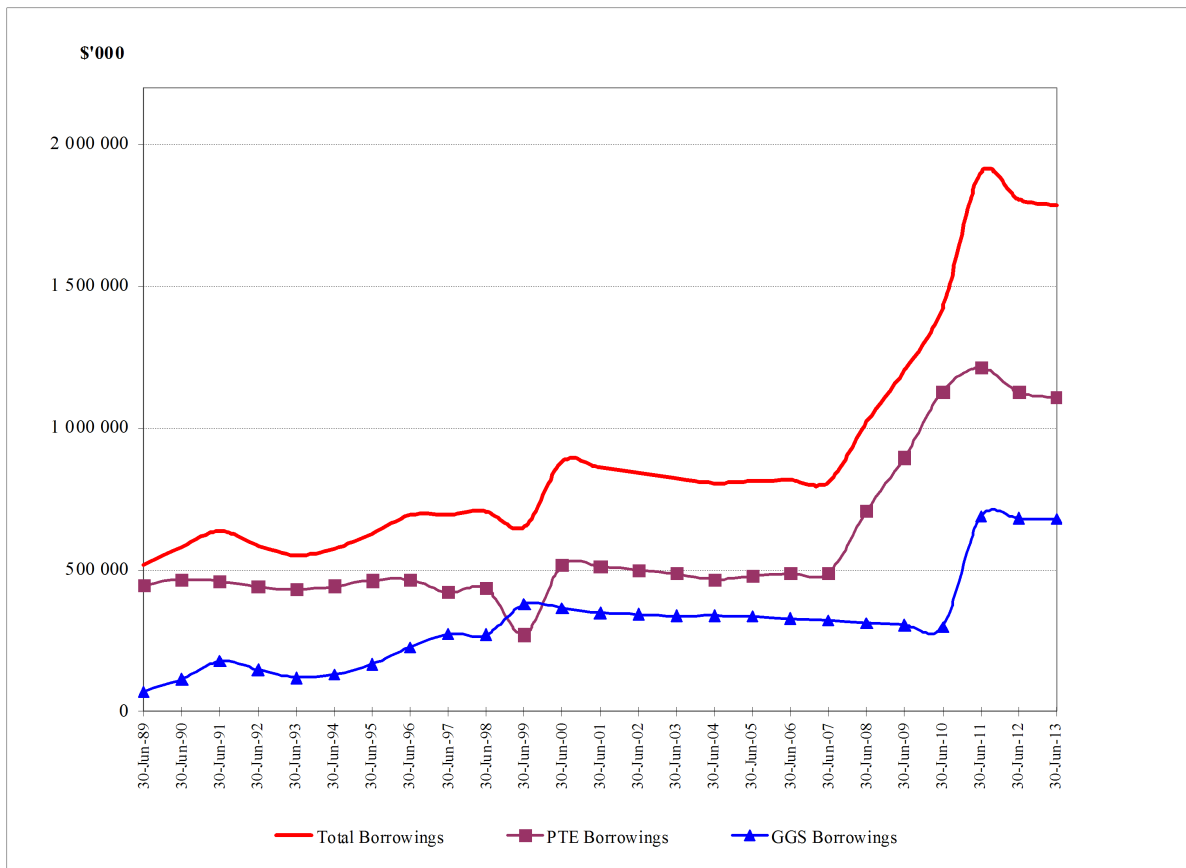


**Note:**

The increase in Territory raised borrowings from 2008-09 to 2012-13 represents new borrowings attributable to the General Government Sector of \$400 million (2010-11) and the Public Trading Enterprise Sector (being ACTEW Corporation Ltd.) of net \$235 million (2007-08), \$200 million (2008-09), \$250 million (2009-10) and \$100 million (2010-11).

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:**

GGS borrowings increase by \$400 million (2010-11) and PTE borrowings from 2007-08 to 2012-13 represents new borrowings attributable to ACTEW of net \$235 million (2007-08), \$200 million (2008-09), \$250 million (2009-10) and \$100 million (2010-11).

Table 5.2.1 summarises the estimated principal and interest payments to be made on Territory debt in the 2009-10 financial year.

**Table 5.2.1  
Territory Borrowing Estimates 2009-10**

	Estimated Debt as at 30-Jun-09 \$'000	Estimated Principal Repayments \$'000	Estimated Interest Repayments \$'000	Estimated Total Repayments \$'000	Estimated New Borrowings \$'000	Estimated Debt as at 30-Jun-10 \$'000
<b>General Government Sector</b>						
- Commonwealth Attributed Borrowings						
- Public Account						
- Fixed Rate Land & Buildings	7,761	554	976	1,530	0	7,207
- Treasury (Home Ownership)	91,249	2,424	4,106	6,530	0	88,825
- Territory Raised Borrowings						
- Public Account						
- Electronic Promissory Notes <sup>1,2</sup>	190,831	0	10,295	10,295	0	190,831
- Government Buildings Sub Lease/Under Lease	15,571	5,726	1,039	6,765	0	9,845
<b>Sub Total</b>	<b>305,412</b>	<b>8,704</b>	<b>16,416</b>	<b>25,120</b>	<b>0</b>	<b>296,708</b>
<b>Public Trading Enterprise Sector</b>						
- Commonwealth Attributed Borrowings						
- Housing (Home Rental)	101,091	4,834	4,549	9,383	0	96,257
- ACTEW (Water & Sewerage)	5,352	4,092	492	4,584	0	1,260
- Territory Raised Borrowings						
- ACTEW						
- Indexed Annuity Bonds <sup>3</sup>	718,940	9,023	43,479	52,503	250,000	959,916
- Electronic Promissory Notes <sup>1</sup>	70,189	0	2,158	2,158	0	70,189
<b>Sub Total</b>	<b>895,572</b>	<b>17,949</b>	<b>50,679</b>	<b>68,628</b>	<b>250,000</b>	<b>1,127,623</b>
<b>TOTAL<sup>4</sup></b>	<b>1,200,984</b>	<b>26,653</b>	<b>67,095</b>	<b>93,748</b>	<b>250,000</b>	<b>1,424,331</b>

**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 payments 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.
4. Totals may not add due to rounding.

*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 2009.

**Table 5.2.2  
Territory Borrowing Maturity**

	<b>Interest Rate</b>	<b>Fixed/ Floating</b>	<b>Maturity Date</b>	<b>Principal Outstanding at 30-Jun-10 \$'000</b>	<b>Principal Outstanding at Maturity \$'000</b>
<b>General Government Sector</b>					
- Commonwealth Attributed Borrowings					
- Public Account					
- Fixed Rate Land & Buildings	12.57%	Fixed	15 June 2023	7,207	0
- Treasury (Home Ownership)	4.50%	Fixed	2039-40	88,825	0
- Territory Raised Borrowings					
- Public Account					
- Electronic Promissory Notes	5.17%	Fixed/Floating	na	190,831	190,831
- Government Buildings Sub Lease/Under Lease	7.50%	Fixed	24 October 2011	9,845	0
<b>Public Trading Enterprise Sector</b>					
- Commonwealth Attributed Borrowings					
- Housing (Home Rental)	4.50%	Fixed	2041-42	96,257	0
- ACTEW (Water & Sewerage)	11.36%	Fixed	31 Dec 2010	1,260	0
- Territory Raised Borrowings					
- ACTEW					
- Indexed Annuity Bonds	3.74% + CPI	Floating (CPI)	17 April 2020	202,140	0
- Indexed Annuity Bonds	2.40% + CPI	Floating (CPI)	12 June 2048	306,977	0
- Indexed Annuity Bonds	est 2.45% + CPI	Floating (CPI)	est 12 June 2048	200,000	0
- Indexed Annuity Bonds	est 2.45% + CPI	Floating (CPI)	est 12 June 2048	250,000	0
- Electronic Promissory Notes	3.08%	Floating	31 October 2011	70,189	0

