

5.1 ACT GOVERNMENT BORROWINGS AND GROSS DEBT

Overview

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

The highlights of 1999-2000 include:

- the establishment of a \$500m long term debt issuance program;
- the successful issue of a \$250m indexed annuity bond on behalf of ACTEW;
- the reduction in general government borrowings of \$25.802m; and
- Samurai Bond issue (\$71 m) matured in November 1999 and was refinanced using commercial paper
- no requirement for new general government borrowings.

The key initiatives for 2000-01 are:

- formation of a Finance and Investment Advisory Board to provide expert input to the management of the Territory's investments and borrowings;
- no new general government borrowings;
- explore opportunities for the repayment and/or refinancing of maturing domestic retail bonds (\$55m); and
- review processes and strategies for the government borrowings.

New Borrowings

There are no new general government sector borrowings projected during the 2000-01 financial year.

Annual Rating Exercise

In December 1999, Standard and Poors Australian Ratings affirmed the Territory's long term rating at AAA and its A1+ short term rating.

Net Debt

Territory net debt for 1999-2000 is expected to be 2.5% of Gross State Product. This is the second lowest ratio of all the states and territories, outranked only by Queensland. With the

improving budgeted operating surplus across the forward estimates, the Government expects to strengthen this position further.

Gross Territory Debt

The following table provides a breakup of the total debt owed to external entities, and principal and interest payments during the 1999-2000 financial year:

**Table 5.1.1
Gross Debt 1999-2000**

	Actual Debt as at 1-Jul-99 \$'000	Estimated Principal Repayments \$'000	Estimated Interest Payments \$'000	Estimated Total Payments \$'000	Estimated Debt as at 30-Jun-00 \$'000
General Government Sector					
.DUS (land and buildings)	5 123	214	635	849	4 909
.General Purpose Capital Advances	26 616	13 951	2 484	16 435	12 665
.Inscribed Stock ⁽¹⁾	118 184	0	12 047	12 047	118 598
.Samurai Bonds	71 092	71 092	1 678	72 770	0
.Commercial Paper					
- Refinanced Cwlth Debt	6 405	1 577	656	2 233	4 787
- Refinanced Samurai Bonds ⁽²⁾	0	0	2 001	2 001	71 092
- Off-budget Housing financing	10 060	10 060	230	10 290	0
Sub Total	237 480	96 894	19 731	116 625	212 051
Public Trading Enterprise Sector					
.ACTION (land and buildings)	8 180	341	1 037	1 378	7 839
.Housing	253 485	5 205	11 407	16 612	248 280
.ACTEW (water and sewerage)	46 273	4 092	5 140	9 232	42 181
.Domestic Retail Bonds	55 000	0	3 113	3 113	55 000
Indexed Annuity Bonds	0	0	661	661	250 000
.Commercial Paper					
- ACTION Refinanced Cwlth Debt	8 640	2 160	906	3 066	6 480
- ACTEW Borrowings	0	0	2 441	2 441	15 000
Sub Total	371 578	11 798	24 705	36 503	624 780
TOTAL	609 058	108 692	44 436	153 128	836 831

(1) The increase of outstanding principal is due to the amortisation of the inscribed stock during the year. The original issue of inscribed stock was at a discount to the face value.

(2) Rollover of Samurai Bonds debt from November 1999.

The following table provides a breakup of the estimated total debt owed to external entities for the 2000-01 financial year.

**Table 5.1.2
Gross Debt 2000-01**

	Actual Debt as at 1-Jul-00 \$'000	Estimated Principal Repayments \$'000	Estimated Interest Payments \$'000	Estimated Total Payments \$'000	Estimated Debt as at 30-Jun-01 \$'000
General Government Sector					
.DUS (land and buildings)	4 909	214	617	831	4 696
.General Purpose Capital Advances	12 665	12 665	823	13 488	0
.Inscribed Stock ⁽¹⁾	118 598	0	12 047	12 047	119 012
.Commercial Paper					
- Refinanced Cwlth Debt	4 787	1 577	491	2 068	3 210
- Refinanced Samurai Bonds ⁽²⁾	71 092	0	4 429	4 429	71 092
Sub Total	212 051	14 456	18 407	32 863	198 010
Public Trading Enterprise Sector					
.ACTION (land and buildings)	7 839	341	985	1 326	7 498
.Housing	248 280	5 431	11 173	16 604	242 849
.ACTEW (water and sewerage)	42 181	4 092	4 676	8 768	38 089
.Domestic Retail Bonds	55 000	55 000	3 323	58 323	0
Indexed Annuity Bonds	250 000	0	15 152	15 152	253 095
.Commercial Paper					
- ACTION Refinanced Cwlth Debt	6 480	2 160	678	2 838	4 320
- ACTEW Borrowings	15 000	0	927	927	15 000
- ACTEW Refinanced Retail Bonds ⁽³⁾	0	0	0	0	55 000
Sub Total	624 780	67 024	36 914	103 938	615 851
TOTAL	836 831	81 480	55 321	136 801	813 861

- (1) The increase of outstanding principal is due to the amortisation of the inscribed stock during the year. The original issue of inscribed stock was at a discount to the face value.
- (2) Rollover of Samurai Bonds debt from November 1999.
- (3) Rollover of Domestic Retail Bonds debt from June 2001.

Total debt is forecast to decrease by \$22.970m over 2000-01. This is attributable in the main to the repayment of Commonwealth related debt.

General Government Debt

The level of general government debt as at 1 July 2000 will be \$212.051m. By the end of the 2000-01 financial year it is estimated to reduce by \$14.456m to \$198.010m.

DUS - (land and buildings)

At 1 July 2000 historical DUS debt will comprise \$4.909m for land and buildings. At 30 June 2001 the obligation to the Commonwealth is estimated to reduce to \$4.696m.

General Purpose Capital Advances

General Purpose Capital Advances were provided to the ACT by the Commonwealth in 1988-89 (\$22.450m) and 1989-90 (\$23.179m) on the same basis as advances to the States and Northern Territory. In 1990-91 advances were replaced by an addition to the ACT's global borrowing limit. The advances are in the form of a number of Commonwealth Government securities which progressively mature until 2001.

Repayment arrangements in respect of the debt were agreed with the Commonwealth in 1991-92. The arrangements require that the Territory redeem the securities as they mature and meet the semi-annual interest costs as they arise. The Commonwealth will supplement the Territory for the additional borrowing cost that will be involved in refinancing the securities. The compensation is deducted from the redemption cost of the relevant securities. The outstanding advances at 1 July 2000 will total \$12.665m. As at 30 June 2001 all outstanding advances will be repaid.

Inscribed Stock

In 1990-91 the Territory issued \$87.500m (face value) of ten year term debt by way of private placement. During 1992-93, \$20m of the 1990-91 issue, which was borrowed in excess of budgetary requirements at that time, was repurchased and the debt was cancelled. During May 1991 and January 1992, a series of interest rate swaps were undertaken to hedge \$30.0m of the borrowings. The effect of the swaps was to provide a margin to the Territory on the transactions of 1.24%. This equates to an annual saving of approximately \$0.372m. At

30 June 2000 an amount of \$67.352m of this issue of ACT Inscribed Stock will remain on issue. It matures on 15 November 2001.

In 1995-96 the Territory issued \$50m (face value) of ten year term debt by way of private placement. At 30 June 2000 an amount of \$51.245m of this issue of ACT Inscribed Stock will remain on issue. This matures on 15 July 2005.

Commercial Paper

Refinanced Historical Plant and Equipment Debt

In 1991-92 the Territory borrowed \$43m by way of its Commercial Paper Program to refinance the historical plant and equipment debt owing to the Commonwealth. This debt was owed to the Commonwealth at fixed interest rates of 11.45% and 12.57% (an average of

12.01%). The debt was attributed to both the general government and to ACTION. The refinancing structure involves the use of a component of the Commercial Paper Program until 2002-03 and an amortising interest rate swap. The structure has effectively reduced the fixed interest rate cost from 12.01% to 10.34%, a saving of approximately \$4.100m over the life of the loan. At 30 June 2001, approximately \$3.210m will remain on issue in respect of the general government.

Refinanced Samurai Bonds

General government borrowings previously funded from a Samurai Bond Issue matured during 1999-2000. These borrowings have been refinanced using Commercial Paper.

Public Trading Enterprise Sector

The level of public trading enterprise sector debt as at 1 July 2000 will be \$624.780m. By the end of the 2000-01 financial year it is estimated to reduce by \$8.929m to \$615.851m.

ACTION - (land and buildings)

At 1 July 2000 historical ACTION debt will comprise \$7.839m for land and buildings. At 30 June 2001 the obligation to the Commonwealth is estimated to reduce to \$7.498m.

Housing

The ACT Housing Trust was aligned with the Commonwealth/State Housing Agreement on 1 July 1987. At that time a level of debt (\$286.747m) was determined in relation to land and capital works relating to property transferred to the Trust under the Rental Housing Scheme and for the previous Commonwealth investment in the Home Purchase Scheme.

Additional advances totalling \$14.100m were provided by the Commonwealth in 1988-89 and 1989-90. In 1990-91, capital advances to the states and territories for housing were discontinued and replaced by grants under the Commonwealth/State Housing Agreement.

As at 1 July 2000 the level of outstanding advances will be \$248.280m. By 30 June 2001 the debt is estimated to fall to \$242.849m. On 1 July 1998, the Home Loan Portfolio was transferred to the Office of Asset Management (now within the Department of Treasury and Infrastructure) which will make direct payments to the Commonwealth for servicing the debt related to the portfolio. All other debt servicing charges related to the housing advances will continue to be paid directly from ACT Housing to the Commonwealth.

ACTEW (water and sewerage)

Upon the transfer of the water and sewerage functions to the then ACT Electricity and Water Authority on 1 July 1988, the relevant Commonwealth Ministers agreed to a level of debt (\$91.287m) to be assigned to ACTEW. Annual debt servicing payments have been paid to the Commonwealth Government since the assignment of the debt.

The amount of debt outstanding at 1 July 2000 will be \$42.181m. As at 30 June 2001 the obligation to the Commonwealth is estimated to be \$38.089m. All debt servicing charges relating to the water and sewerage advances are paid directly by ACTEW Corporation.

Domestic Retail Bonds

During 1997-98, new borrowings (\$55m) were undertaken by the CFU and on-lent to ACTEW Corporation. The Commonwealth Bank of Australia (CBA) was mandated to arrange and manage the bond issue following a selective tender process. The borrowings were funded by way of a domestic retail bond issue. The term of the borrowing is three years with a maturity date of 19 June 2001.

Indexed Annuity Bonds

New ACTEW Corporation Borrowings

The 1999-2000 budget strategy included a \$300 million capital distribution to the general government from ACTEW Corporation. ACTEW required new borrowings of \$265m to enable the payment to be made. Of the \$265m ACTEW borrowing requirement, \$250m was funded by way of an Indexed Annuity Bond issue. This borrowing was undertaken through the \$500m ACT Debt Issuance Program established in 1999-2000. A key requirement of ACTEW was that the major component of the new borrowing be in the form of indexed bonds. An Indexed Annuity Bond issue was the preferred structure for the borrowing as these form of bonds provide the opportunity to repay the debt over the period of the loan rather than a bullet payment at the end; and the risks of inflation were matched with the inflation linked revenues from its water and sewerage assets.

The term of the bond is twenty years with a maturity date of 17 April 2020. Borrowing repayments will be made on a quarterly basis and both principal and interest is repaid at each instalment. The final cost of funds to the ACT including all costs was 3.77% plus inflation. This compares to the estimated cost of a nominal bond at the time of 6.9% to 7.0% (inclusive of costs).

Commercial Paper

Refinanced Historical Plant and Equipment Debt

In 1991-92 the Territory borrowed \$43m by way of its Commercial Paper Program to refinance the historical plant and equipment debt owing to the Commonwealth. This debt was owed to the Commonwealth at fixed interest rates of 11.45% and 12.57% (an average of 12.01%). The debt was attributed to both the general government and to ACTION. The refinancing structure involves the use of a component of the Commercial Paper Program until 2002-03 and an amortising interest rate swap. The structure has effectively reduced the fixed interest rate cost from 12.01% to 10.34%, a saving of approximately \$4.100m over the life of the loan. At 30 June 2001, approximately \$4.320m will remain on issue.

New ACTEW Corporation Borrowings

The 1999-2000 budget strategy included a decision that ACTEW Corporation would make a \$300 million capital distribution to the general government. ACTEW required new borrowings of \$265m to enable the payment to be made. Of the \$265m requirement, \$15m was borrowed using the Commercial Paper Program. These borrowings will remain outstanding until such time as ACTEW decides to repay the loan.

Gross Territory Debt Maturity Table

The following table details interest rates, maturity dates and the principal outstanding at the time of maturity of the territory debt as at 1 July 2000:

Table 5.1.3
Gross Debt Maturity

	Interest Rate	Fixed/Floating	Maturity Date	Principal outstanding at Maturity \$'000
General Government Sector				
DUS (land and buildings)	12.57%	Fixed	15 June 2023	0
General Purpose Capital Advances	13.00%	Fixed	15 July 2000	12 665
Inscribed Stock #1	12.36%	Fixed	15 Nov 2001	67 500
Inscribed Stock #2	8.75%	Fixed	15 July 2005	52 621
Commercial Paper				
- Refinanced Cwlth Debt	10.34%	Fixed/Floating	15 April 2003	0
- Refinanced Samurai Bonds	5.76%	Floating	na	71 092
Public Trading Enterprise Sector				

ACTION (land and buildings)	12.57%	Fixed	15 June 2023	0
Housing	4.60%	Fixed	2041-2042	0
ACTEW (water and sewerage)	11.36%	Fixed	31 Dec 2010	0
Domestic Retail Bonds	5.80%	Floating	19 June 2001	55 000
Indexed Annuity Bonds	6.24%	Floating (CPI)	17 April 2020	0
Commercial Paper				
- ACTION Refinanced Cwlth Debt	10.34%	Fixed/Floating	15 April 2003	0
- ACTEW Borrowings	5.93%	Floating	na	15 000

