6.2 GOVERNMENT BORROWINGS AND GROSS DEBT

2011-12 Priorities

The Government's priorities for 2011-12 are:

- maintaining the Territory's AAA credit rating;
- maintaining sustainable levels of debt;
- managing, monitoring and reviewing, as necessary, the debt portfolio and debt management policy and benchmarks; and
- raising the Territory's new 2011-12 borrowing requirements.

Credit Rating

Standard & Poor's (Australia) Pty Ltd is contracted by the Territory to provide independent credit rating services.

On 16 March 2011 Standard & Poor's Ratings Services released its report on the Australian Capital Territory, affirming the long-term AAA and short-term A1+ issuer credit ratings.

Standard & Poor's also rated the outlook as *Stable*.

The AAA and A-1+ ratings are the highest ratings assigned by Standard & Poor's.

The Standard & Poor's credit rating is an annual report providing a basis for comparison between the financial positions of Australian States and Territories.

Debt Management

The majority of Territory borrowings are undertaken by Treasury. Treasury has established 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.

Debt issuance is facilitated through the Domestic Debt Issuance Program. The debt issuance program comprises a standardised Note Deed Poll defining important terms and conditions and issuer obligations about notes (bonds) issued under the program, a Dealer Agreement, and an Information Memorandum. The debt issuance program provides the ability for the Territory to issue new borrowings in a variety of forms in the domestic financial markets in an efficient manner. In addition, the Territory may utilise financial instruments, such as interest rate swaps, to manage interest rate exposures.

Treasury is responsible for the development and implementation of borrowing objectives, strategies and benchmarks and utilises an established dealer panel to facilitate new debt issuance transactions.

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;
- the debt management benchmark: to target, in the order of 30 per cent, the amount of the general government debt portfolio to be exposed to floating (variable) interest rates; and
- debt funding instruments: limited to commercial paper, electronic promissory notes, fixed rate bonds, floating rate bonds, 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 borrowings are understood and managed to the greatest extent possible.

The above principles apply only to general government debt, excluding Housing ACT and ACTEW Corporation (ACTEW) related debt. Housing ACT debt is provided by the Commonwealth Government at concessional fixed interest rates and is therefore managed separately. Although Treasury 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 2011-12 Budget anticipates new General Government Sector (GGS) borrowings for capital of $350 million in 2011-12 and a further $300 million in 2012-13. This is an increase of $200 million on the level estimated in the 2010-11 Budget.

It is widely recognised as prudent for governments with strong balance sheets to incur some debt, provided that debt is used to finance high quality assets which increase the productive capacity of the economy. These assets provide benefits to the community over a long period of time.

Assets that will be funded, in part, by new capital borrowings include:

- continuation of the implementation of the capital asset development plan to build a sustainable and modern health system; and
- the Majura Parkway.

A key strategy in maintaining borrowings at prudent and sustainable levels will be to ensure that the ratio of general government sector net financial liabilities to revenue is maintained at or below the level identified by credit rating agencies as likely to trigger a credit rating review. The projected balance sheet estimates indicate that debt remains within acceptable levels.

These new borrowings will be raised through the issue of securities (combination of floating rate commercial paper and fixed rate nominal bonds) in the domestic financial markets. The actual term to maturity and interest rates will be determined at the time the new borrowings are raised, taking into account prevailing financial market conditions.

The Budgeted levels of Territory cash are, and will continue to be, monitored on an ongoing basis. To the extent that Territory cash levels remain strong after borrowings, on a sustainable basis, and there is sufficient capacity to fund all the Territory's investment/capital program, there will be flexibility for borrowings to be repaid at maturity or not drawn in full; or additional funding to be put toward the superannuation liability if necessary in the forward estimates. These options will be considered on an ongoing basis taking account of the prevailing circumstances of the budget and the Territory's balance sheet.

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 surrounding regions.

There is an ongoing borrowing program to fund the major water security projects and general capital expenditure program. The major water security projects include:

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

The major general capital projects include:

- Googong Dam Spillway augmentation and remediation project; and
- Cotter Pump Station suction and discharge mains.

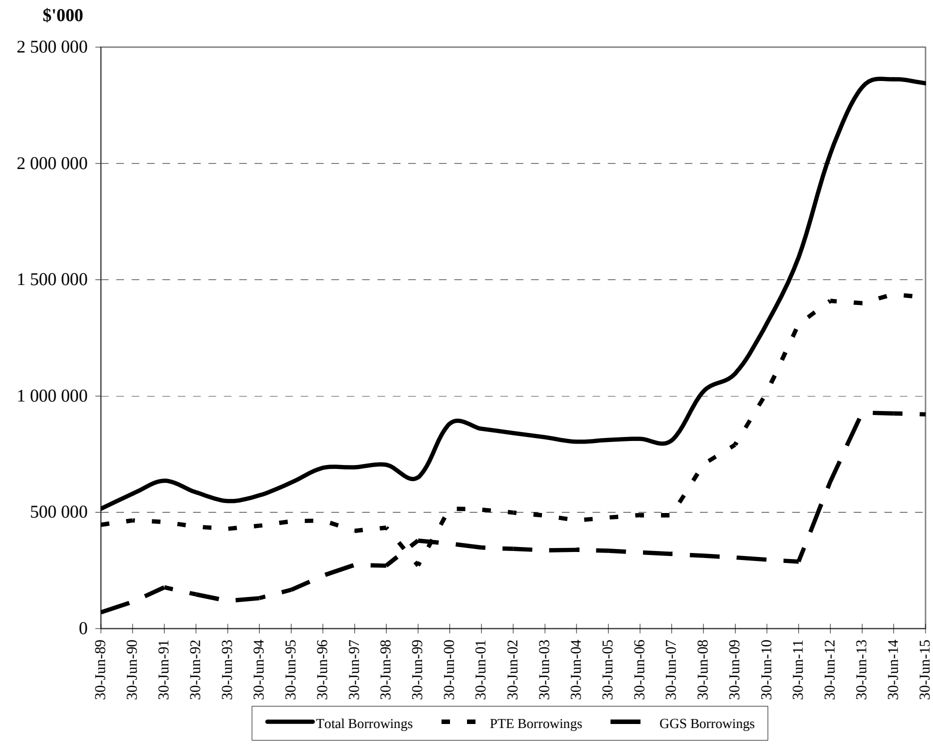
The estimated outcome for 2010-11 is further new borrowings of $300 million. It is also anticipated that there will be a requirement for new borrowings across the forward years, including $180 million in 2011-12 and $50 million in 2013-14.

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 6.2.1 summarises the outstanding levels of borrowings separated between the General Government Sector and the Public Trading Enterprise Sector.

Figure 6.2.1
ACT External Debt: 1989-90 to 2011-12 and the Forward Estimates



Notes:
1. GGS borrowings increase by $350 million (2011-12) and $300 million (2012-13). These increases are offset by other scheduled GGS borrowing principal repayments.
2. PTE borrowings increase from 2007-08, due to new borrowings attributable to ACTEW of $300 million (2007-08), $97 million (2008-09), $243 million (2009-10), $300 million (2010-11), $180 million (2011-12) and $50 million (2013-14). These increases are offset by other PTE borrowing scheduled principal repayments.

Table 6.2.1 summarises the estimated principal and interest payments to be made on Territory debt in the 2011-12 financial year.

Table 6.2.1
Territory Borrowing Estimates 2011-12

	Estimated Debt as at 30-Jun-11 $'000	Estimated Total Principal And Interest $'000	Estimated New Borrowings $'000	Estimated Debt as at 30-Jun-12 $'000
General Government Sector				
Commonwealth Attributed Borrowings				
- Public Account				
- Fixed Rate Land & Buildings	6,653	1,390	0	6,099
- Treasury (Home Ownership)	86,292	6,531	0	83,644
Territory Raised Borrowings				
- Public Account				
- Electronic Promissory Notes[1]	191,698	10,117	0	191,698
- Gvt Buildings Lease/Under Lease	3,446	3,548	0	0
- Fixed Rate Nominal Bonds[2]	0	0	350,000	350,000
Sub Total	**288,089**	**21,587**	**350,000**	**631,441**
Public Trading Enterprise Sector				
Commonwealth Attributed Borrowings				
- Housing (Home Rental)	91,423	9,058	0	86,478
Territory Raised Borrowings				
- ACTEW				
- Electronic Promissory Notes[1]	70,189	71,233	0	0
- Inflation-Linked Bonds[3]	847,023	52,473	0	843,080
- Fixed Rate Nominal Bonds[4]	300,000	23,850	180,000	480,000
Sub Total	**1,308,634**	**156,614**	**180,000**	**1,409,558**
TOTAL	**1,596,724**	**178,200**	**530,000**	**2,040,999**

Notes: Totals may not add due to Rounding

1. Electronic promissory notes are a form of short-term debt funding instrument. Funding is generally undertaken on 3-month roll-over terms.
2. New general government borrowings totalling $350 million are estimated for 2011-12 and a further $300 million in 2012-13. The borrowings will be funded by way of a fixed rate nominal bond issue involving semi-annual interest payments with principal to be repaid in full at maturity.
3. Inflation-linked bonds comprise indexed annuity bonds which are fully amortising bonds with quarterly annuity payments (comprising interest and principal) increasing in line with the CPI; and capital-indexed bonds with quarterly interest only payments, with principal increasing in line with CPI until maturity.
4. New ACTEW borrowings totalling $300 million are estimated for 2010-11 and a further $180 million in 2011-12. The borrowings will be funded by way of fixed rate nominal bond issues involving semi-annual interest payments with principal to be repaid in full at maturity.

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 2012.

Table 6.2.2
Territory Borrowing Maturity

	Interest Rate Per cent	Fixed/ Floating	Maturity Date	Principal Outstanding at 30-Jun-12
General Government Sector				
Commonwealth Attributed Borrowings				
- Public Account				
- Fixed Rate Land & Buildings	12.57	Fixed	15 June 2023	6,099
- Treasury (Home Ownership)	4.50	Fixed	2039-40	83,644
Territory Raised Borrowings				
- Public Account				
- Electronic Promissory Notes[1]	5.28	Fixed/Floating	Quarterly Rollover	191,698
- Fixed Rate Nominal Bonds – Series 1[2]	6.00	Fixed	Est. June 2017	350,000
Public Trading Enterprise Sector				
Commonwealth Attributed Borrowings				
- Housing (Home Rental)	4.50	Fixed	2041-42	86,478
Territory Raised Borrowings				
- ACTEW				
- Indexed Annuity Bonds - Series 1[4]	3.74 + CPI	Floating (CPI)	17 April 2020	176,248
- Indexed Annuity Bonds – Series 2[5]	2.83 + CPI	Floating (CPI)	12 June 2048	410,687
- Capital Indexed Bonds – Series 1[6]	3.50 + CPI	Floating (CPI)	17 June 2030	256,145
- Fixed Rate Nominal Bonds – Series 1[2]	6.00	Fixed	Est. June 2017	300,000
- Fixed Rate Nominal Bonds – Series 2[3]	6.00	Fixed	Est. June 2018	180,000

Notes:

1. EPNs: Interest and principal to be repaid at maturity (every 3-months) at which time the borrowing amount is refinanced for a further 3-months.
2. MTN Series 1: estimated terms include: initial face value $300m; 6-year term to maturity; fixed coupon rate of 6.00%; semi-annual interest only payments; principal repaid in full at maturity. It is anticipated that this bond line will also be used to fund the general government's 2011-12 borrowing requirement. This would see the face value of the bond increasing by $350m to $650m in 2011-12.
3. MTN Series 2: estimated terms include: initial face value $180m; 5-year term to maturity; fixed coupon rate of 6.00%; semi-annual interest only payments; principal repaid in full at maturity. It is anticipated that this bond line will also be used to fund the general government 2012-13 borrowing requirement. This would see the face value of the bond increasing by $300m to $480m in 2012-13.
4. IAB Series 1: face value $250 million; interest rate of 3.74 per cent + CPI, quarterly interest and principal repayments, maturity date of 17 April 2020.
5. IAB Series 2: face value $420 million; weighted interest rate of around 2.83 per cent + CPI, quarterly interest and principal repayments, maturity date of 12 June 2048.
6. CIB Series 1: face value $250m; interest rate of 3.50% + CPI, quarterly interest only repayments, principal capitalised by CPI and repaid in full at maturity on 17 June 2030.