7.1 ACT GOVERNMENT BORROWINGS

Overview

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

Highlights

- no new general government borrowings in 2002-03 and the forward years;
- AAA credit rating reaffirmed in February 2002;
- a full review of the Government's borrowing policies, strategies and financial benchmarking will be undertaken in 2002-03;
- total outstanding borrowings were reduced by $16.5m in 2001-02; and
- total outstanding borrowings will be reduced by $17.9m in 2002-03.

Annual Rating Exercise

In February 2002, Standard and Poors Australian Ratings affirmed the Territory's long-term rating at 'AAA' and its 'A-1+' short-term rating. Also affirmed were the Territory's 'AA+' long-term and 'A-1+' short-term foreign currency ratings, which reflect the sovereign credit risk associated with the 'AA+' foreign currency rating on the Commonwealth of Australia.

The Territory's ratings continue to reflect its very low level of financial liabilities and strong ongoing budgetary performance.

Background

All new Territory borrowings are undertaken by the Department of Treasury 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. Historically, new market borrowings have only been undertaken to provide funding to the Territory Public 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 for the Territory in 1989, a 'notional' level of borrowings was attributed to the Territory. The Territory's initial 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 also refinance maturing borrowings for which there has been limited capacity for retirement.

The Territory currently has two established borrowing programs from which it is able to raise new borrowings or to refinance existing borrowings: a $500m domestic commercial paper program which is a short-term floating rate facility; and a $500m domestic term debt program which enables the issuance of debt for terms in excess of twelve months on either a fixed or floating rate basis, or a combination of the two.

Treasury utilises the services of an independent external Investment Advisory Board to develop and implement borrowing objectives, strategies, benchmarks and other general borrowing and risk management advice as required. The appointment of a specialist risk management adviser to also assist with these tasks in 2002-03 will further enhance the Territory's debt management activities.

Outstanding Borrowings

The maintenance of conservative fiscal management programs since self-government has resulted in borrowing levels for the Territory being well contained and as such have averaged around the $600m level until 1999-2000. The budget strategy in 1999-2000 included a requirement for ACTEW to make a $300m capital distribution to the general government. ACTEW required new borrowings of $265m to enable the payment to be made.

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 2000-01 and Forward Years Estimates

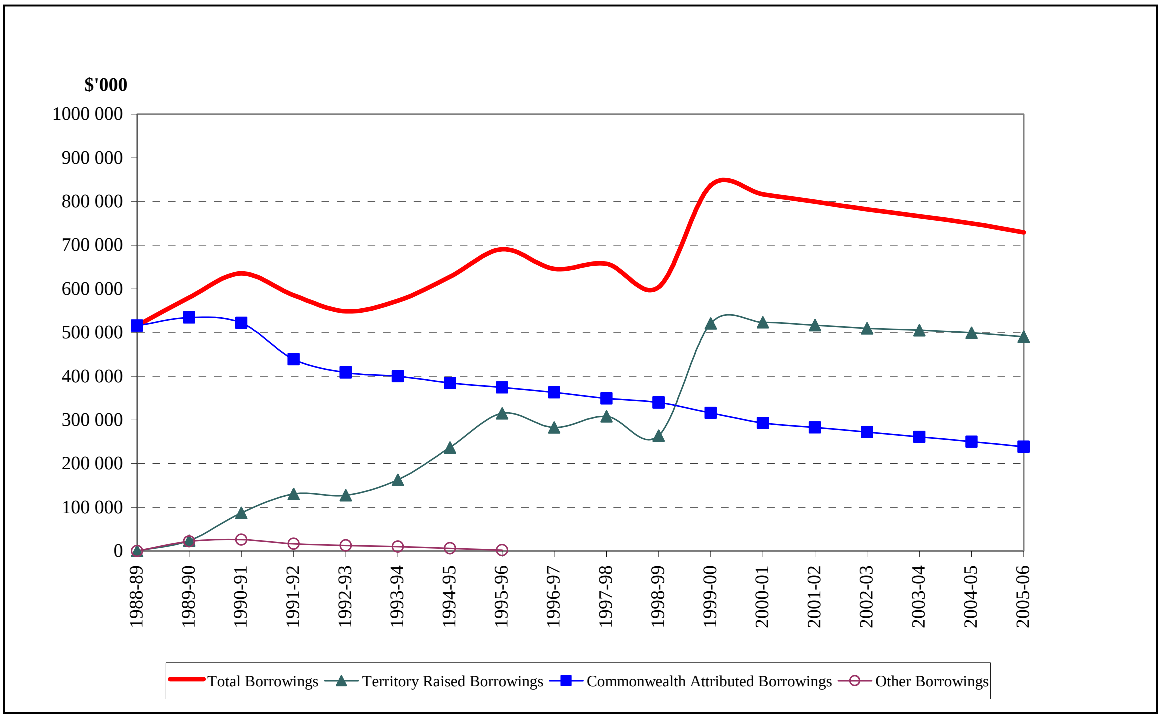

Figure 7.1.2 summarises the outstanding levels of borrowings separated between the General Government Sector and the Public Trading Enterprise Sector. During 1998-99, the Home Loan portfolio was transferred to the Department of Treasury and therefore, there is a reclassification of the borrowings from PTE to GGS. The increase in PTE borrowings during 1999-00 is the new borrowings required by ACTEW to enable it to make a capital distribution payment to the general government.

Figure 7.1.2
ACT External Debt: 1989-90 to 2000-01 and Forward Years Estimates

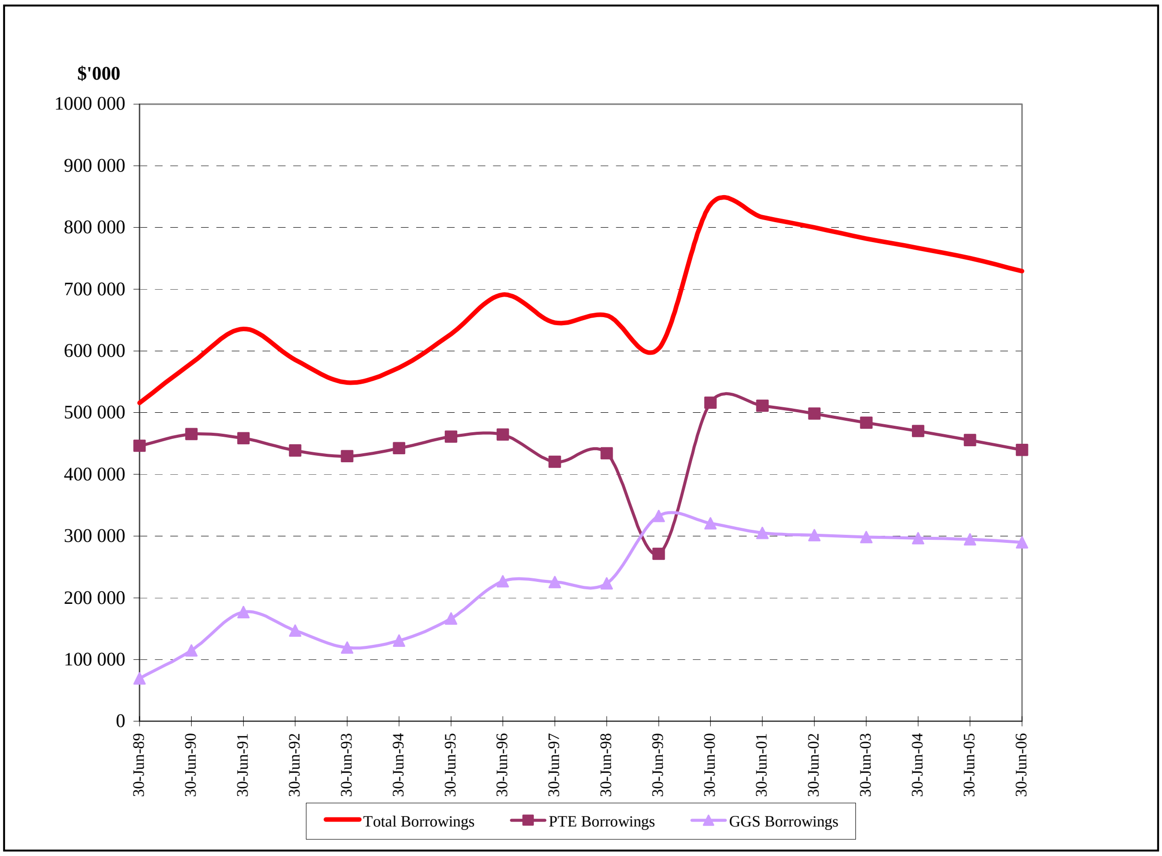

Table 7.1.1 summarises the estimated principal and interest payments to be made on Territory debt in the 2002-03 financial year.

Table 7.1.1
Territory Debt Estimates 2002-03

	Estimated Debt as at 30-Jun-02 $'000	Estimated Principal Repayments $'000	Estimated Interest Repayments $'000	Estimated Total Repayments $'000	Estimated Debt as at 30-Jun-03 $'000
General Government Sector					
- Commonwealth Attributed Borrowings					
- DUS (Land & Buildings)	4 482	214	563	777	4 268
- Treasury (Home Ownership)	105 535	1 781	4 749	6 530	103 754
- Territory Raised Borrowings					
- Public Account					
- Inscribed Stock (Issue 2)(1)	51 795	0	3 947	3 947	52 070
- Commercial Paper (Line 1)(2)	1 577	1 577	164	1 741	0
- Commercial Paper (Line 2)(3)	138 211	0	8 016	8 016	138 211
Sub Total	**301 600**	**3 572**	**17 439**	**21 011**	**298 303**
Public Trading Enterprise Sector					
- Commonwealth Attributed Borrowings					
- ACTION Authority (Land & Buildings)	7 157	341	900	1 241	6 816
- Housing (Home Rental)	131 611	4 162	5 923	10 085	127 449
- ACTEW (Water & Sewerage)	33 996	4 092	3 746	7 838	29 904
- Territory Raised Borrowings					
- ACTION Authority (Commercial Paper Line 1)(2)	2 160	2 160	225	2 385	0
- ACTEW					
- Indexed Annuity Bonds(4)	253 481	3 888	15 999	19 887	249 593
- Commercial Paper (Line 3)	70 000	0	4 060	4 060	70 000
Sub Total	**498 405**	**14 643**	**30 853**	**45 496**	**483 762**
TOTAL[5]	**800 005**	**18 215**	**48 291**	**66 507**	**782 065**

(1) The increase of outstanding principal is due to the amortisation of the inscribed stock during the year.
The original issue was at a discount to the face value. The full amount due for repayment in July 2005 is $52.6m.

(2) Represents borrowings funded by commercial paper on 180 day roll-over terms. These borrowings will mature in April

(3) Represents borrowings funded by commercial paper on 90 day roll-over terms. Alternate funding options will be explored
the review of Territory borrowings to be undertaken in 2002-03.

(4) Indexed annuity bonds are fully amortising bonds with quarterly annuity payments increasing in line with the CPI.

(5) The net reduction in debt is $17.9m comprising cash repayments of $18.2m, less a notional increase in the level of outstanding
stock which increases annually until maturity (refer to footnote 1 above).

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 2002:

Table 7.1.2
Territory Borrowing Maturity Table

	Interest Rate	Fixed/Floating	Maturity Date
General Government Sector			
- Commonwealth Attributed Borrowings			
- DUS (Land and Buildings)	12.57%	Fixed	15 June 2023
- Treasury (Home Ownership)	4.50%	Fixed	2039-40
- Territory Raised Borrowings			
- Public Account			
- Inscribed Stock (Issue 2)	8.75%	Fixed	15 July 2005
- Commercial Paper (Line 1) (1)	10.34%	Fixed	15 April 2003
- Commercial Paper (Line 2) (2)	4.79%	Floating	na
Public Trading Enterprise Sector			
- Commonwealth Attributed Borrowings			
- ACTION Authority (Land and Buildings)	12.57%	Fixed	15 June 2023
- Housing (Home Rental)	4.50%	Fixed	2041-42
- ACTEW (Water and Sewerage)	11.36%	Fixed	31 Dec 2010
- Territory Raised Borrowings			
- ACTION Authority (Commercial Paper Line 1) (1)	10.34%	Fixed	15 April 2003
- ACTEW			
- Indexed Annuity Bonds	3.74% + CPI	Floating (CPI)	17 April 2020
- Commercial Paper (Line 3) (3)	4.61%	Floating	na

(1) This borrowing is structured by a combination of floating rate commercial paper and an amortising interest rate swap that has fixed and floating rate components. The all-up cost of funds is a fixed interest rate of

(2) The floating interest rate displayed is the rate outstanding at 30 June 2002. The next due roll-over date is 12 August

(3) The floating interest rate displayed is the rate outstanding at 30 June 2002. The next due roll-over date is 19 July

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 2002	Estimated at 30 June 2003
Weighted Average Interest Rate	GGS	5.51%	5.96%
	PTE	6.01%	6.12%
	Total	5.82%	6.06%
Percentage of Portfolio Fixed Rate	GGS	54%	54%
	PTE	35%	34%
	Total	42%	41%
Percentage of Portfolio Floating Rate	GGS	46%	46%
	PTE	65%	66%
	Total	58%	59%