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 2000-01 include:

- the establishment of the Finance and Investment Advisory Board comprising three external members including the Chair, together with the Deputy Under Treasurer as an ex officio member. The role of the Board is to provide advice on a range of issues that come within the responsibility of the Finance and Investment Group;
- a reduction in general government borrowings of $20.459m; and
- no requirement for new general government borrowings.

The key initiatives for 2001-02 are:

- exploring opportunities for the repayment and/or refinancing of maturing domestic retail bonds ($55m) and maturing inscribed stock ($67.5m); and
- reviewing processes and strategies for the government borrowings.

New Borrowings

There are no new general government sector borrowings projected during the 2001-02 financial year.

Annual Rating Exercise

In April 2001, Standard and Poors Australian Ratings affirmed the Territory's long term rating at AAA and its A1+ short term rating.

Gross Territory Debt

The following table provides details of the total debt owed to external entities, and principal and interest payments during the 2000-01 financial year:

Table 5.1.1
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	4 695
. 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	71 092	0	4 429	4 429	71 092
Sub Total	**212 051**	**14 456**	**18 407**	**32 863**	**198 009**
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	0	3 323	3 323	55 000
Indexed Annuity Bonds (2)	250 000	-5 606	22 791	22 791	255 606
. Commercial Paper					
- ACTION Refinanced Cwlth Debt	6 480	2 160	678	2 838	4 320
- ACTEW Borrowings	15 000	0	927	927	15 000
Sub Total	**624 780**	**6 418**	**44 553**	**56 577**	**618 362**
TOTAL	**836 831**	**20 874**	**62 960**	**89 440**	**816 371**

(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) Indexed annuity bonds (IAB) are fully amortising bonds with quarterly annuity payments increasing in line with the CPI. The high rate of CPI during 2000-01 because of the inflationary impact of the GST, and the low proportion of capital repayment in the early period of the loan has resulted in some capitalisation of the indexation.

The following table provides details of the estimated total debt owed to external entities for the 2001-02 financial year.

Table 5.1.2
Gross Debt 2001-02

	Actual Debt as at 1-Jul-01 $'000	Estimated Principal Repayments $'000	Estimated Interest Payments $'000	Estimated Total Payments $'000	Estimated Debt as at 30-Jun-02 $'000
General Government Sector					
. DUS (land and buildings)	4 695	214	590	804	4 481
. Inscribed Stock (1)	119 012	0	7 996	7 996	51 795
. Commercial Paper					
- Refinanced Cwlth Debt	3 210	1 577	327	1 904	1 633
- Refinanced Samurai Bonds	71 092	0	3 910	3 910	71 092
- Refinanced Inscribed Stock (1)	0	0	1 846	1 846	67 119
Sub Total	**198 009**	**1 791**	**14 669**	**16 460**	**196 120**
Public Trading Enterprise Sector					
. ACTION (land and buildings)	7 498	341	943	1 284	7 157
. Housing	242 849	5 642	10 928	16 570	237 207
. ACTEW (water and sewerage)	38 089	4 093	4 211	8 304	33 996
Domestic Retail Bonds (2)	55 000	0	0	0	0
Indexed Annuity Bonds (3)	255 606	-98	19 557	19 557	255 704
. Commercial Paper					
- ACTION Refinanced Cwlth Debt	4 320	2 160	452	2 612	2 160
- ACTEW Borrowings	15 000	0	892	892	15 000
- ACTEW Refinanced Retail Bonds (2)	0	0	3 272	3 272	55 000
Sub Total	**618 362**	**12 138**	**40 255**	**52 491**	**606 224**
TOTAL	**816 371**	**13 929**	**54 924**	**68 951**	**802 344**

(1) Rollover of Inscribed Stock

(2) Rollover of Domestic Retail Bonds

(3) Indexed annuity bonds (IAB) are fully amortising bonds with quarterly annuity payments increasing in line with the CPI. Based on expected CPI for 2001-02, a small amount of indexation will be capitalised.

Total debt is forecast to decrease by $13.929m over 2001-02. 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 2001 will be $198.009m. By the end of the 2001-02 financial year it is estimated to decrease by $1.791m to $196.120m.

DUS - (land and buildings)

At 1 July 2001 historical DUS debt will comprise $4.695m for land and buildings. At 30 June 2002 the obligation to the Commonwealth is estimated to reduce to $4.481m.

General Purpose Capital Advances (General Government)

During 2000-01 the outstanding balance of General Purpose Capital Advances provided to the ACT by the Commonwealth in 1988-89 ($22.450m) and 1989-90 ($23.179m) was repaid on maturity ($12.665m).

Inscribed Stock (General Government)

In 1990-91, the Territory issued $87.5m (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 $30m 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 2001, an amount of $67.5m of this Inscribed Stock will remain on issue. It matures on 15 November 2001. At this time options will be explored to refinance this debt.

In 1995-96 the Territory issued $50m (face value) of ten year term debt by way of private placement. At 30 June 2002, $51.520m of this Inscribed Stock will remain on issue. This matures on 15 July 2005.

Commercial Paper (General Government)

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 $4.1m over the life of the loan. At 30 June 2002, approximately $1.633m will remain on issue in respect of the general government sector.

Refinanced Samurai Bonds

General government borrowings previously funded by a Samurai Bond Issue matured during 1999-2000. These borrowings have been refinanced using Commercial Paper until other borrowing options are explored. It is expected that at 30 June 2002, approximately $71.092m will remain on issue.

Public Trading Enterprise Sector

The level of public trading enterprise sector debt as at 1 July 2001 will be $618.362m. By the end of the 2001-02 financial year it is estimated to reduce by $12.138m to $606.224m.

ACTION - (land and buildings)

At 1 July 2001 historical ACTION debt will comprise $7.498m for land and buildings. At 30 June 2002 the obligation to the Commonwealth is estimated to reduce to $7.157m.

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 for 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 2001 the level of outstanding advances will be $242.849m. By 30 June 2002 the debt is estimated to fall to $237.207m. The Home Loan Portfolio has been transferred to the Department of Treasury which makes 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 2001 will be $38.089m. As at 30 June 2002 the obligation to the Commonwealth is estimated to be $33.996m. All debt servicing charges relating to the water and sewerage advances are paid directly by ACTEW Corporation.

Domestic Retail Bonds (ACTEW)

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 20 July 2002. At this time refinancing options will be explored.

Indexed Annuity Bonds (ACTEW)

ACTEW Corporation Borrowings

The 1999-2000 budget strategy included a $300m 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. Indexed annuity bonds (IAB) are fully amortising bonds with quarterly annuity payments increasing in line with the CPI. As a result of the high rate of CPI during 2000-01 because of the inflationary impact of the GST, the IAB liability has increased by the end of the year.

The term of the bond is twenty years with a maturity date of 17 April 2020. Annuity repayments will be made on a quarterly basis. 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 (ACTION)

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 $4.1m over the life of the loan. At 30 June 2002, approximately $2.160m will remain on issue.

New ACTEW Corporation Borrowings

The 1999-2000 budget strategy included a decision that ACTEW Corporation would make a $300m 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 repays 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 2001:

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	15 April 2003	0
- Refinanced Samurai Bonds	5.51%	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	20 July 2001	55 000
Indexed Annuity Bonds	3.74% + CPI	Floating (CPI)	17 April 2020	0
Commercial Paper				
- ACTION Refinanced Cwlth Debt	10.34%	Fixed	15 April 2003	0
- ACTEW Borrowings	5.88%	Floating	na	15 000

Interest Rate Exposure

		At 30 June 2001	At 30 June 2002
Weighted Average Interest Rate	GGS	8.30%	5.88%
	PTE	5.83%	6.43%
	Total	6.43%	6.29%
Percentage of Portfolio Fixed Rate	GGS	64%	30%
	PTE	47%	46%
	Total	51%	42%
Percentage of Portfolio Floating Rate	GGS	36%	70%
	PTE	53%	54%
	Total	49%	58%

The substantial reduction in the GGS weighted average interest rate is due to the refinancing of the maturing inscribed stock #1 (12.36%) with commercial paper (floating rate estimated to be 5.00%). The refinancing transaction also significantly reduces the proportion of debt portfolio at fixed rates.