

# Financial Management (Credit Facility) Approval 2012 (No 1)

## Disallowable instrument DI2012-208

made under the

***Financial Management Act 1996, section 59 (5) (Borrowing by territory authorities)***

### EXPLANATORY STATEMENT

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#### Background

The University of Canberra (UC) currently has a high demand for additional student accommodation facilities. The UC's aim is to grow student numbers from approximately 10,500 Equivalent Full-Time Student Load (EFTSL) to 16,100 by 2018. This growth in student numbers will increase the number of interstate and international students studying at the University and will increase the demand for student accommodation.

To assist with establishing additional accommodation to support the targeted growth in student numbers, the UC has successfully achieved funding for 1,000 student accommodation places under the Commonwealth NRAS program. The UC has decided to finance the capital cost of the new accommodation from borrowings.

#### Outline

To assist the UC to overcome the current shortfall in the amount of student accommodation it has available, the Treasurer has approved a credit facility for the UC from the territory banking account (**Credit Facility**) in accordance with sections 59(5) to 59(10) of the *Financial Management Act 1996* (**FMA**).

Section 59 of the FMA deals with borrowings by territory authorities. Sections 59(5) to (10) of the FMA provide that the Treasurer may approve by disallowable instrument, inter alia, a credit facility for a territory authority from the territory banking account if the Treasurer is satisfied the purpose of the credit facility is consistent with a function of the territory authority. Section 59(5) of the FMA further provides that a credit facility approved in writing by the Treasurer in accordance with sections 59(5) to (10) of the FMA may be made without the requirement for an appropriation of funds for the purposes of the credit facility.

The Credit Facility is a revolving line of credit that permits the UC to draw down from and repay funds to the territory banking account at any time up to 30 June 2014 provided that the maximum balance of the Credit Facility (including capitalised interest) does not exceed \$50 million. All interest accruing on the facility up to 30 June 2014

will be capitalised to the Credit Facility balance as at 30 June 2014. Quarterly interest only payments are then to be made by the UC from 1 July 2014 during the 2014/15 financial year, and thereafter from 1 July 2015, the quarterly payments will include both principal and interest so that the facility is completely repaid by its expiry date.

### **Purpose**

The Credit Facility will enable the design and construction of Student Accommodation and ancillary facilities on the UC campus which will result in 297 dwellings consistent with the UC's obligations under the NRAS arrangements (**Student Accommodation 1**).

### **Term of Credit Facility**

The expiration of the Credit Facility is 1 July 2028 at which time the UC must have fully repaid all amounts outstanding in respect of the Credit Facility.

### **Interest**

The rate of interest payable to the Territory will be a fixed rate set on the date of the first drawdown against the Credit Facility and applicable until 1 July 2028. The fixed interest rate will be established by the prevailing Commonwealth Government 21 April 2027 bond rate (International Securities Identification Number AU3TB0000135 sourced from Bloomberg) plus the ACT Government market borrowing margin to the Commonwealth Government of 1.35% plus the lending margin of 0.75% being offered to the UC.

### **UC Undertaking**

To support the Credit Facility, the UC will provide an undertaking in the form of a negative pledge, consistent with that applying to the UC's private bank loans.

### **Use of the Credit Facility**

Unless the Territory otherwise agrees, the UC must complete the construction of the Student Accommodation 1 by 30 June 2014 or, all of the principal and interest then outstanding on the Credit Facility will be repayable in full by 31 December 2014. The UC must use their best endeavours to ensure the Student Accommodation 1 is constructed and maintained to industry standard.

### **Documentation**

The Territory and the UC will enter into an agreement in respect of the Credit Facility which will detail all of the terms of the Credit Facility as set out in the Disallowable Instrument together with such other ancillary terms as the Under Treasurer considers appropriate (which must not be inconsistent with the terms set out in the Disallowable Instrument). No funds may be drawn down against the Credit Facility by the UC until this agreement is executed by the Territory and the UC.

### **End**