

Australian Capital Territory

Financial Management (Credit Facility) Approval 2007 (No 1)

Disallowable instrument DI2007–220

made under the

Financial Management Act 1996, section 59 (9) (Borrowing by territory authorities)

EXPLANATORY STATEMENT

Outline

It has been agreed that the borrowing requirements of the Land Development Agency (LDA) will be provided internally from the Territory Banking Account through a loan credit facility.

Section 59 of the *Financial Management Act 1996* allows the Treasurer to lend public money to a Territory Authority on the terms and conditions the Treasurer considers appropriate. Under Section 59(5), no budget appropriation is required for an overdraft or credit facility for a Territory Authority from the Territory Banking Account that is approved, in writing, by the Treasurer for the Authority.

The loan facility to be established is a credit facility. LDA's borrowings as per its 2007-08 Budget financials and forward estimates are managed on a working capital approach, based on the whole of organisation cash requirements arising from its agreed program.

The credit facility is for a purpose consistent with the functions of LDA. LDA has advised the level of debt in its estimates for 2007-08 and beyond is driven by the following key items:

- paying an immediate debt owed to the ACT Planning and Land Authority (ACTPLA) in relation to raw land purchases LDA made in 2005-06. The generation of this debt was a transitional issue, resulting in the reclassification of LDA as a Public Trading Enterprise in May 2006, and the subsequent requirement for LDA to purchase raw land at market rates;
- retaining approximately \$20 million in working capital which reflects the commitment to an average of 3 civil works contracts running at any given time;
- increases in average inventory holdings; and
- the Kingston Foreshore Harbour Works.

The proposed loan credit facility is consistent to what has been published in the 2007-08 Budget and 2007-08 LDA Statement of Intent.