

Financial Management (Credit Facility) Approval 2008 (No 1)*

Disallowable instrument DI2008–236

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 2008-09 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.

Purpose

The credit facility is for a purpose consistent with the functions of LDA. LDA has advised the level of debt in its estimates for 2008-09 and beyond is driven by the following key items:

- 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 2008-09 Budget and 2008-09 LDA Statement of Intent.

Interest

The rate of interest payable by LDA will be based on the 3-month bank bill swap rate (BBSW) plus a margin of 50 basis points. A margin of 50 basis points is added to reflect the Government's Debt Guarantee Levy (DGL) policy that is designed to address competitive neutrality issues surrounding borrowings from commercial Government entities. The margin of 50 basis points ensures LDA is not borrowing at a rate which puts it at an advantage to its private sector competitors as a result of its Government ownership structure.

End

*Name amended under Legislation Act, s 60