QTON No. 24

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Elizabeth Kikkert MLA (Chair), Michael Pettersson MLA (Deputy Chair), Andrew Braddock MLA

Inquiry into Annual and Financial Reports 2020-21
ANSWER TO QUESTION TAKEN ON NOTICE
1 March 2022

Asked by ELIZABETH LEE MLA on 1 MARCH 2022: ANDREW BARR MLA took on notice the following question(s):

[Ref: Hansard Transcript 1 MARCH 2022, PAGE 27-29]

MS LEE: Thank you, Chair. Treasurer, I will just take you back to the discussion that we had in my previous question. There was a lot of numbers thrown about and I have just looked at the budget papers. I asked the question about what interest rates would need to be for payment repayments to be at a billion and you talked about 20 per cent. Can you just provide where you got that from? Because when I look at page 309 of the budget outlook, we have got liabilities in the forward estimates at 24-25 at about 14 and a half billion and if you were looking at 20 per cent of that, that is almost $3 billion.

Mr Barr: That would be assuming that all debt at that point was subject to a single interest rate. ...(indistinct)... [10.51.12] there is—

MS LEE: Sure. That was the question.

Mr Barr: It is just off the top of my head; I did a very quick calculation around what the multiple of the current interest rate would need to be across a series of maturing debt lines, Ms Lee, so in the ballpark of we are—

MS LEE: Yes, and—

Mr Barr: If you assume that the current discount rate, so the long-term, the average interest rate over a 30-year period is in the order of 4 to 5 per cent and then we have got around $250 million of debt at the moment that is, you know, at the average level of interest because they are different interest rates applying to different components, is around that 200 to 250 million. Then a quick calculation, multiply that by 4 or 5 would give you somewhere approaching 20 per cent.

But no, it is not the exact figure and it is not modelled. That scenario on the—because your question was about current debt levels not future debt levels, so if we incurred more debt at a higher interest rate, then it is of course feasible that your annual repayments could reach a billion dollars a year, but by the time that would occur, the ACT economy and the ACT revenue base would be substantially larger than it is at the moment. So perhaps the more reasonable measure, given also that you would have inflation over that period, would be the debt to revenue metric and so as revenue increases each year, debt can increase each year within the same debt to revenue metric.

MS LEE: And thank you for answering, but—you know, because the original question that I did ask, and I knew because obviously this does involve what are figures—I did specifically start with saying can you take on notice the average level of interest ...(indistinct)... [10.53.07]

Mr Barr: Sure. Well I am willing to provide a quick shorthand comparator, Ms Lee. If I have slightly overestimated the interest rate, as I was doing that quick calculation in my head, I apologise, but suffice to say it would be a very significant increase in interest rates necessary to drive our current debt levels to see repayments, the interest costs on our current debt levels reach $1 billion a year. I mean, that is effectively three to four times what the current interest payments are. And ...(indistinct)... [10.53.44]

MS LEE: All right. I am losing you. Yes, you cut out a little bit.

Mr Barr: The point has been made quite well that all of our debt does not sit at one single interest rate and all of our debt would not fall due in any one fiscal year. It is a yield curve, Ms Lee.

MS LEE: I understand that. That is why my question specifically was, can you take on notice, number one, and number two, the average interest rate? So I do understand, so you do not need to be condescending. Now, what I am asking is, please can you take it on notice—you have done it off the top of your head. What I am asking and that is what I asked the Treasury official, can you please provide on notice the average interest rate, taking into consideration the forward estimates in terms of our liabilities?

Mr Barr: Across the forward estimates?

MS LEE: Yes. Mr—

Mr Barr: That is a different question from what you asked earlier.

MS LEE: Mr McAuliffe already gave—started to give that answer, talking about $360 million a year and then moving into $340 million in terms of 24-25, so I think I am pretty sure he has got that information. Can I have that on notice please?

Mr Barr: That is this budget papers. That is where he was reading it from. So that is the model across the forward estimates. It is already there for you. We published it last year. We will update it again—

MS LEE: So the original question then, that is, to reach $1 billion per year in interest payments; have you got that modelling, can you please provide that?

Mr Barr: No, I do not have that modelling, but it would be a fairly straightforward exercise. But again, assuming, what, that all—

MS LEE: Well, it clearly is not, because you said 20 per cent and you have now had to say well it is not, obviously, so it has clearly not as straightforward as you are saying it is.

Mr Barr: Well, it would depend on the expiry or maturity of the current borrowings. So to go from 300 million to a billion dollars on current repayments, when the next bond expires, is that the question? I mean, it is just such a meaningless, pointless question as to—

MS LEE: I get to choose the questions, Treasurer—

Mr Barr: ...(indistinct)... [10.55.38], yes.

MS LEE: —so please, like, I am asking the question, can you provide the average interest rate for our—

Mr Barr: Yes.

MS LEE: Yes, can you provide that and can you take it on notice?

Mr Barr: Yes, I can.

ANDREW BARR MLA: The answer to the Member's question is as follows:–

New borrowing interest rates would need to increase to an estimated 16 per cent from the 2022-23 financial year for Territory borrowing interest costs (excluding interest costs in relation to operating and finance leases, public private partnership contracts and service concession liabilities) to reach $1 billion by 2024-25.

This estimate is based on:

1. maintaining the current 2021-22 Budget assumptions for actual and estimated new borrowings; and
2. the 16 per cent interest rate only applying to estimated new or refinanced maturing borrowings as current actual outstanding medium term notes are at fixed interest rates and inflation linked bonds are adjusted by changes in the consumer price index.

Approved for circulation to the Standing Committee on Public Accounts

Signature: Andrew Barr   Date: 11.3.22

By the Treasurer, Andrew Barr MLA