WRITTEN QUESTIONS
7th Assembly

31/08/1995

62. Auditor-General 's Report - Northern Territory Treasury

Mr. EDE to MINISTER for TREASURER

QUESTION

1. With reference to page 7 of the Auditor-General's Report, which stated that the Auditor-General's Office having "examined specific hedging and option transactions entered into by the Northern Territory Treasury between 10 October 1991 and 30 June 1994",:

   (a) what are the details of the specific transactions referred to;

   (b) what is the immediate and/or ongoing cost to public monies for each specific transaction;

   (c) at the time of his Audit, did the Auditor-General state that the documentation did not exist and, since that time, have officers of the Treasury undertaken to have it prepared; if so, what is the nature and extent of that documentation; and

   (d) when will documentation, adequate for decision making and accountability, be in place to guide financial risk management practices.

ANSWER

Answered on 30/11/95

1. (a) It would not be commercially appropriate, nor particularly meaningful given their technical nature, to list the transactions comprising the specific hedging and option transactions. These have been examined in detail by the authorised auditor, who reported inter alia that:

   (i) "the option transactions entered into were a legitimate hedging strategy designed to protect NTT against rising interest rates by fixing a borrowing rate for future debt issues. Where option contracts form part of a hedging strategy designed to fix a borrowing rate within a specified range (i.e. protect a borrower from increasing interest rates whilst limiting the ability to take advantage of decreases in interest rates) any cost or benefit arising on closing out the option position must be viewed as a part of the borrowing cost achieved on the related physical debt issues. That is, the hedge cost or benefit is added to the cost of the physical borrowings to determine the overall cost of borrowing";

(ii) "the interest rates at which the initial option contracts were transacted were consistent with market rates of interest at that time";

(iii) "interest rates at the time the contracts were rolled over reflected a combination of accumulated hedging costs and market rates"; and

(iv) "the impact of the combination of option contracts and the existing market rates of interest was to "lock-in" a net borrowing cost of approximately 10% for approximately $75m of debt issued throughout 1992 and 1993".

(b) There is no immediate and/or ongoing cost to the hedging and option transactions. These transactions ensured a fixed interest rate range for a portion of the Territory's borrowings, and this was taken into account in calculating borrowing costs. See answer (a).

(c) While the audit report states that the level of documentation and policy framework governing the transactions and the underlying strategy were not clearly presented and not well documented, working papers were sufficient for the audit to conclude with a satisfactory finding. Since that time, Northern Territory Treasury Corporation has prepared written documentation on policy and procedures.

(d) See answer (c).