

CENTRAL FINANCING UNIT

Objectives

The Central Financing Unit (CFU) manages the central finances of the Territory through the Territory Banking Account. The Unit provides services to the Government that include financial asset and liability management through the establishment of investment and borrowing policies and objectives, and the coordination of investment and borrowing activities.

CFU manages the surplus cash balances of the ACT and invests funds through external managers within known cash flow requirements and established investment policies. The Unit is also responsible for the administration of the ACT's debt portfolio and the management of the Territory's debt servicing liabilities, including overseeing the Territory's motor vehicle financing facility and overseeing the Territory's transactional banking arrangements.

The objective of the CFU is to effectively manage the capital markets functions through the maximisation of returns on investments within relevant risk tolerances, the achievement of competitive borrowing rates commensurate to the ACT's credit rating, and the development of effective financial risk management strategies.

The CFU, through the Territory Banking Account, recognises and manages the General Government's debt liability. Revenues on behalf of the Territory are transferred to the Territory Banking Account and fortnightly appropriation disbursements to agencies are made from the Territory Banking Account.

The CFU utilises the services of a Finance and Investment Advisory Board established to provide advice in respect of the assets and liabilities of the Territory that are managed through the CFU.

2004-05 Highlights

Strategic and operational issues to be pursued in 2004-05 include:

- implementing a robust cash flow model for the Territory Banking Account;
- implementing new borrowing strategies consistent with the outcomes of the debt liability management review completed in 2003-04; and
- providing recommendations to Government outlining the financing options for the motor vehicle fleet when the current financing facility expires.

Budgeted Financial Results

In accordance with Section 31 of the *Financial Management Act 1996* (FMA), the following are the key budgeted results for the Department:

- maintaining an investment strategy supported by an underlying investment configuration that will deliver investment returns exceeding the UBS Australian Bank Bill Index plus 0.10% before fees for the Cash Enhanced Fund, and exceeding the UBS Australian Composite Bond Index before fees for the Fixed Interest Fund; and
- implementing and maintaining a debt portfolio with a modified duration target of 3 years, with a duration policy range of ± 0.5 years, and debt management limits whereby the amount of floating rate debt in the portfolio cannot exceed 30% in total (or a position of 13.3% over benchmark), and maintain the benchmark maturity limits across the yield curve.

Central Financing Unit
Statement of Revenues and Expenses on Behalf of the Territory

2003-04 Budget \$'000		2003-04 Est.Outcome \$'000	2004-05 Budget \$'000	Var %	2005-06 Estimate \$'000	2006-07 Estimate \$'000	2007-08 Estimate \$'000
Revenue							
10 858	Payment for Expenses on behalf of Territory	10 996	11 686	6	10 686	10 686	10 687
64 532	Interest	62 397	70 372	13	61 955	55 957	56 267
83 226	Other Revenue	83 791	109 694	31	112 573	115 257	117 223
1 947 469	Transfer Revenue	2 043 672	2 098 954	3	2 201 490	2 288 658	2 387 101
2 106 085	Total Ordinary Revenue	2 200 856	2 290 706	4	2 386 704	2 470 558	2 571 278
Expenses							
50 705	Borrowing Costs	47 216	56 885	20	55 984	55 155	55 198
1 175	Other Expenses	1 097	529	-52	408	336	344
2 092 298	Transfer Expenses	2 158 884	2 361 506	9	2 472 812	2 451 009	2 472 268
2 144 178	Total Ordinary Expenses	2 207 197	2 418 920	10	2 529 204	2 506 500	2 527 810
-38 093	Operating Result	-6 341	-128 214	#	-142 500	-35 942	43 468
300 988	Total Equity From Start of Period	307 554	338 946	10	212 932	70 432	34 490
350	Distributions to Government	37 550	2 200	-94	0	0	0
3 922	Inc/Dec in Net Assets from Admin Restructure	183	0	-100	0	0	0
267 167	Total Equity At The End of Period	338 946	212 932	-37	70 432	34 490	77 958

Central Financing Unit
Statement of Assets and Liabilities on Behalf of the Territory

Budget as at 30/6/04 \$'000		Est.Outcome as at 30/6/04 \$'000	Planned as at 30/6/05 \$'000	Var %	Planned as at 30/6/06 \$'000	Planned as at 30/6/07 \$'000	Planned as at 30/6/08 \$'000
Current Assets							
4 593	Cash	14 964	22 519	50	21 630	20 685	15 930
92 152	Receivables	58 003	68 634	18	59 000	56 501	55 991
514 834	Investments	671 358	527 024	-21	392 888	370 901	432 948
21 505	Other	14 379	14 379	0	14 379	14 379	14 379
633 084	Total Current Assets	758 704	632 556	-17	487 897	462 466	519 248
Non Current Assets							
319 505	Receivables	314 994	369 947	17	357 339	343 631	328 041
221 609	Investments	149 247	139 654	-6	142 952	146 076	148 857
29 223	Property, Plant and Equipment	27 949	27 949	0	27 949	27 949	27 949
570 337	Total Non Current Assets	492 190	537 550	9	528 240	517 656	504 847
1 203 421	TOTAL ASSETS	1 250 894	1 170 106	-6	1 016 137	980 122	1 024 095
Current Liabilities							
28 721	Payables	10 328	12 603	22	12 603	12 603	12 606
586 393	Interest Bearing Liabilities	276 120	271 873	-2	269 317	279 444	292 325
14 948	Finance Leases	15 145	15 145	0	15 145	15 145	15 145
630 062	Total Current Liabilities	301 593	299 621	-1	297 065	307 192	320 076
Non Current Liabilities							
0	Payables	0	0	-	0	0	0
291 918	Interest Bearing Liabilities	597 550	644 748	8	635 835	625 635	613 256
14 274	Finance Leases	12 805	12 805	0	12 805	12 805	12 805
306 192	Total Non Current Liabilities	610 355	657 553	8	648 640	638 440	626 061
936 254	TOTAL LIABILITIES	911 948	957 174	5	945 705	945 632	946 137
267 167	NET ASSETS	338 946	212 932	-37	70 432	34 490	77 958
REPRESENTED BY FUNDS EMPLOYED							
267 167	Accumulated Funds	338 946	212 932	-37	70 432	34 490	77 958
267 167	TOTAL FUNDS EMPLOYED	338 946	212 932	-37	70 432	34 490	77 958

Central Financing Unit
Budgeted Statement of Cashflows on Behalf of the Territory

2003-04 Budget \$'000		2003-04 Est.Outcome \$'000	2004-05 Budget \$'000	Var %	2005-06 Estimate \$'000	2006-07 Estimate \$'000	2007-08 Estimate \$'000
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts							
10 857	Cash from Government for EBT	10 995	11 687	6	10 686	10 686	10 686
65 598	Interest Received	62 024	69 845	13	61 546	55 620	55 922
83 082	Other Revenue	84 636	109 406	29	112 061	114 759	116 752
1 956 776	Territory Receipts transferred from Agencies	2 061 141	2 094 965	2	2 222 906	2 303 104	2 401 012
2 116 313	Operating Receipts	2 218 796	2 285 903	3	2 407 199	2 484 169	2 584 372
Payments							
51 732	Borrowing Costs	46 515	56 378	21	56 003	55 172	55 215
1 176	Other	47	38	-19	26	20	18
32 895	Payments to PTE Agencies for Outputs	32 759	29 987	-8	30 307	30 607	30 891
1 402 403	Payments to GGS Agencies for Outputs	1 466 774	1 564 334	7	1 610 962	1 657 114	1 701 619
386 613	Payments to Agencies for EBT	392 724	368 058	-6	444 994	483 422	516 183
1 874 819	Operating Payments	1 938 819	2 018 795	4	2 142 292	2 226 335	2 303 926
241 494	NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	279 977	267 108	-5	264 907	257 834	280 446
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
4 741	Proceeds from Sale/Maturities of Investments	37 653	9 593	-75	0	0	0
6 003	Repayment of Advance	14 835	16 048	8	11 049	12 609	13 709
350	Capital Distributions from Government Agencies	37 850	2 200	-94	0	0	0
11 094	Investing Receipts	90 338	27 841	-69	11 049	12 609	13 709
Payments							
0	Purchase of Investments	0	0	-	3 298	3 124	2 781
8 000	Advances Issued to Government Agencies	2 300	24 768	977	0	0	0
271 669	Capital Payments to Government Agencies	268 111	403 635	51	396 214	290 177	234 586
279 669	Investing Payments	270 411	428 403	58	399 512	293 301	237 367
-268 575	NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	-180 073	-400 562	-122	-388 463	-280 692	-223 658

**Central Financing Unit
Budgeted Statement of Cashflows on Behalf of the Territory**

2003-04 Budget \$'000		2003-04 Est.Outcome \$'000	2004-05 Budget \$'000	Var %	2005-06 Estimate \$'000	2006-07 Estimate \$'000	2007-08 Estimate \$'000
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
38 803	Borrowings Received	0	16 156	#	395	12 137	13 828
490 249	Receipt of Transferred Cash Balances	270 516	0	-100	0	0	0
529 052	Financing Receipts	270 516	16 156	-94	395	12 137	13 828
Payments							
4 774	Repayment of Borrowings	4 882	555	-89	10 632	12 212	13 325
322 715	Repayment of Investments to Agencies (CFU only)	39 263	18 927	-52	1 233	0	0
327 489	Financing Payments	44 145	19 482	-56	11 865	12 212	13 325
201 563	NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	226 371	-3 326	-101	-11 470	-75	503
174 482	NET INCREASE/(DECREASE) IN CASH HELD	326 275	-136 780	-142	-135 026	-22 933	57 291
344 945	CASH AT BEGINNING OF REPORTING PERIOD	360 045	686 320	91	549 540	414 514	391 581
519 427	CASH AT THE END OF THE REPORTING PERIOD	686 320	549 540	-20	414 514	391 581	448 872

Notes to the Budget Statements

Significant variations are as follows:

Many of the variations within the CFU budget statements are driven by agency activity during and between financial years. This will be disclosed within the relevant explanations below.

Statement of Revenues and Expenses on Behalf of the Territory

- payment for expenses on behalf of the Territory: represents the appropriation paid to meet the debt servicing expenses incurred on general government borrowings. The increases of \$0.138m in the 2003-04 estimated outcome from the original budget, and \$0.690m in the 2004-05 Budget from the 2003-04 estimated outcome, is due to higher interest costs on the variable rate borrowings;
- interest: includes investment interest returns received from banks and fund managers and interest paid by agencies on loans with CFU. The decrease of \$2.135m in the 2003-04 estimated outcome from the original budget is due mainly to a lower than expected return on the fixed interest component of the investment portfolio. The increase of \$7.975m in the 2004-05 Budget from the 2003-04 estimated outcome reflects a higher investment rate of return and new interest revenues from loans not previously recognised in the CFU, but now are following a reclassification of some agency borrowings from external to internal;
- other revenue: comprises employer superannuation contributions made by budget funded agencies. Variances are driven by agency activity;
- transfer revenue: represents the transfer from agencies of revenue received on behalf of the Territory. Variances are driven by agency activity;
- borrowing costs: comprise interest payments made in respect of borrowings undertaken by CFU on behalf of the general government sector and ACTEW Corporation and investment interest payments to clients. The decrease of \$3.489m in the 2003-04 estimated outcome from the original budget is largely due to the lower payments of investment interest to agencies due to the performance of the fixed interest component of the investment portfolio during the year;
- other expenses: comprise the investment related management fees paid to external fund managers and the master custodian in respect of the general government investments;
- transfer expenses: represents the transfer of appropriated funds to agencies for outputs, expenditure on behalf of the Territory and capital injections. Variances are driven by agency activity;
- distributions to Government: the increase in the expected 2003-04 outcome of \$37.2m comprises \$33.2m from the Home Loan Portfolio and \$4m from the Department of Treasury; and
- increase in net assets from administrative restructure: comprises the net asset transfer to the CFU Territorial account as a result of the discontinuance of the CFU Departmental operations from 1 July 2003 as identified in the 2003-04 Budget.

Statement of Assets and Liabilities on Behalf of the Territory

- receivables (current and non current): comprises loans receivable from the general government sector and from the public trading enterprise sector and transfer revenue receivable from agencies.

The decrease of \$34.12m in the 2003-04 estimated outcome from the original budget for current receivables is mainly due to lower transfer revenue accruals.

The increase of \$54.953m in the 2004-05 Budget from the 2003-04 estimated outcome for non current receivables is due to the provision of a new loan to ACTEW of \$25m and new general government sector loans not previously recognised in the CFU, but now are following a reclassification of some agency borrowings from external to internal.

- investments (current and non current): represents the pooled total of each individual Government agency, and the Territory Banking Account, that invests surplus funds through the CFU. The increase of \$84.162m in the 2003-04 estimated outcome from the original budget is due to higher than anticipated levels of cash being generated mainly by the Territory Banking Account during the year;
- property, plant and equipment: this represents the Territory's motor vehicle assets leased through the ACT Fleet Financing Facility; and
- interest bearing liabilities (current and non current): comprises agencies investment deposits with the CFU and external market borrowings. External borrowings include commercial paper, inscribed stock and indexed annuity bonds. The 2004-05 estimate comprises \$569.040m being external borrowings and \$347.581m being agency investments.

Statement of Cashflows on Behalf of the Territory

- receipt of transferred cash balances: represents the cash equivalent cash transfer from the former CFU Departmental account as a result of the discontinuance of the CFU Departmental operations from 1 July 2003 as identified in the 2003-04 Budget; and
- cash at the end of the reporting period: represents the total of cash at bank and investments at call which are readily convertible to cash and are not subject to significant risk of changes in value.

Changes to Appropriation

Changes to Appropriation - Territorial

Payment for Expenses on Behalf of the Territory	2003-04 Est. Out. \$'000	2004-05 Budget \$'000	2005-06 Estimate \$'000	2006-07 Estimate \$'000	2007-08 Estimate \$'000
2003-04 Budget	10 857	11 203	11 548	11 548	11 548
2004-05 Budget Technical Adjustments					
Increase in Borrowing Costs	138	484	-862	-862	-862
2004-05 Budget	10 995	11 687	10 686	10 686	10 686

EXPENSES ON BEHALF OF THE TERRITORY
PRINCIPAL MEASURES

EBT 1: CENTRAL FINANCING UNIT

Description: Management of the investment and borrowing activities of the ACT Government.

Measures	2003-04 Targets	2003-04 Estimated Outcome	2004-05 Targets
Quantity			
(a) Monitor and review the Debt Portfolio. ¹	4	2	4
(b) Monitor and review the investment performance of the general government investment funds.	4	4	4
Quality/Effectiveness			
(c) Ratio of average borrowing rate divided by the established benchmark ²	≤1	Not measurable	deleted
(c) Average duration of actual debt portfolio. ³ – (New)	Not applicable	Not applicable	≥ 2.5 years and ≤ 3.5 years
(d) Ratio of average investment earnings rate divided by the established benchmark.	≥1	≥1	≥1
Timeliness			
(e) Debt portfolio performance reported quarterly by the 15th business day after the end of the quarter.	100%	50%	100%
(f) Investment portfolio performance reported quarterly by the 15th business day after the end of the quarter.	100%	100%	100%
TERRITORIAL COST (\$'000)	\$2 144 178.0	\$2 207 197.0	\$2 418 920.0
TOTAL COST (\$'000)	\$2 144 178.0	\$2 207 197.0	\$2 418 920.0
EXPENSE ON BEHALF OF THE TERRITORY (\$'000)	\$10 857.0	\$10 996.0	\$11 686.0

Notes

1. A review of the debt liability management was only completed at the end of the 2nd quarter. Accordingly the monitoring and reporting measure will only be able to be completed for the 3rd and 4th quarters of 2003-04
2. This measure will be unable to be measured following the final outcomes of the debt liability management review. It was expected that a benchmark based on cost of funds would be developed however this has not been the case. Rather the benchmark will be based on duration.
3. Refer to note (c) above. This measure will replace the one detailed in 2003-04 from 2004-05. The approved duration policy is to target 3 years, however the actual duration range is ±0.5 years around 3 years.