

CENTRAL FINANCING UNIT

Objectives

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

The CFU manages the surplus cash balances of the Government and invests funds through external investment managers within known cash flow requirements and established investment policies. The CFU is also responsible for the administration of the Government's debt portfolio and the management of the Territory's debt servicing liabilities.

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 with the Territory'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 are made to agencies from the Territory Banking Account.

2006-07 Priorities

Strategic and operational issues to be pursued in 2006-07 include:

- managing the Government's debt portfolio and associated risks; and
- managing the general government sector's investment portfolio and devising effective investment policies with the aim of maximising returns on the portfolio.

Business and Corporate Strategies

Assets are managed in accordance with guidelines set out in the *Financial Management (Investment and Borrowing) Guidelines 2005*. These guidelines set investment and credit risk parameters for general government investments. The investment performance of the institutional funds managers contracted to manage investments is also monitored and reviewed. Monitoring of investment performance is done in conjunction with the Territory's investment adviser and the Finance and Investment Advisory Board.

Debt is managed in accordance with a debt management policy that balances interest rate risk and budget volatility. This involves ensuring that debt is managed within tolerances set out in the current policy.

Output Class

	Total Cost		Expenses on Behalf of the Territory	
	2005-06 Est. Outcome \$'000	2006-07 Budget \$'000	2005-06 Est. Outcome \$'000	2006-07 Budget \$'000
EBT 1:				
Central Financing Unit	2,496,119	2,776,307	12,486	11,943
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Description

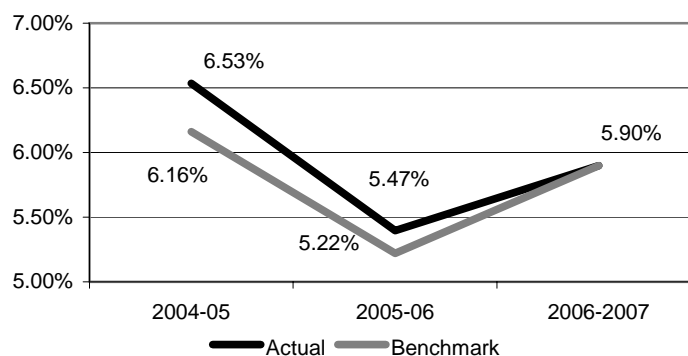
This output includes the management of the investment and borrowing activities by the CFU.

The key outputs to be delivered in 2006-07 include:

- investment management – maximising the return on investments within acceptable risk tolerances;
- borrowing management – achieving competitive borrowing rates commensurate with the ACT Government's credit rating; and
- risk management – developing and maintaining effective financial risk management strategies.

Strategic Indicators

Strategic Indicator 1 Investment returns meeting or exceeding benchmark



The CFU's investment performance is measured against a standard market benchmark. The conservative policy for general government investments is such that returns equal to or marginally in excess of the benchmark are expected.

Strategic Indicator 2 Borrowing portfolio in line with benchmark

General government borrowings are managed to minimise excess interest rate and market risk. The strategy for managing the general government debt portfolio is to strike an appropriate balance between the risks associated with debt that has a floating (variable) interest rate and is therefore exposed to volatility in market interest rates and the costs associated with a fixed (and therefore more certain) rate of interest.

The two strategic indicators for the management of the debt portfolio are:

- a maximum of 30 per cent of the general government debt portfolio be exposed to floating (variable) interest rates; and
- the general government debt portfolio to have an average debt maturation timeframe (modified duration) of three years with a range tolerance of ± 0.5 years.

Accountability Indicators

	2005-06 Targets	2005-06 Est. Outcome	2006-07 Targets
1.1: Central Financing Unit			
a. Ratio of investment earnings rate divided by the established benchmark	≥ 1	1.05	≥ 1
b. Exposure of debt portfolio to floating interest rates ¹	n/a	17.9%	$\leq 30\%$
c. Modified duration of debt portfolio ¹	n/a	2.9 years	between 2.5 and 3.5 years

Note:

1. New measure. The 2005-06 estimated outcome is provided for comparative purposes only.

Changes to Appropriation

Changes to Appropriation - Territorial

	2005-06	2006-07	2007-08	2008-09	2009-10
Payment for Expenses on Behalf of Territory	Est. Outc.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2005-06 Budget	12,939	11,714	11,688	11,662	11,662
2006-07 Budget Technical Adjustments					
Interest Rate Adjustment	-453	229	228	226	200
2006-07 Budget	12,486	11,943	11,916	11,888	11,862

Changes to Appropriation - Territorial

	2005-06	2006-07	2007-2008	2008-2009	2008-2009
Capital Injections	Est. Outc.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2005-06 Budget	214	214	214	214	214
	-	-	-	-	-
2006-07 Budget	214	214	214	214	214

**Central Financing Unit
Statement of Income and Expenses on Behalf of the Territory**

2005-06 Budget \$'000		2005-06 Est.Outcome \$'000	2006-07 Budget \$'000	Var %	2007-08 Estimate \$'000	2008-09 Estimate \$'000	2009-10 Estimate \$'000
Income							
Revenue							
12,939	Payment for Expenses on behalf of Territory	12,486	11,943	-4	11,916	11,888	11,862
64,139	Interest	70,440	61,334	-13	53,847	58,362	68,942
105,550	Other Revenue	101,034	167,789	66	159,624	152,044	142,677
2,226,075	Transfer Revenue	2,250,141	2,347,478	4	2,464,362	2,609,095	2,737,789
2,408,703	Total Revenue	2,434,101	2,588,544	6	2,689,749	2,831,389	2,961,270
Gains							
0	Total Gains	0	0	-	0	0	0
2,408,703	Total Income	2,434,101	2,588,544	6	2,689,749	2,831,389	2,961,270
Expenses							
58,749	Borrowing Costs	60,787	56,130	-8	57,374	59,601	61,229
4,209	Other Expenses	6,322	323	-95	224	261	391
2,599,972	Transfer Expenses	2,429,010	2,719,854	12	2,675,797	2,641,131	2,707,028
2,662,930	Total Ordinary Expenses	2,496,119	2,776,307	11	2,733,395	2,700,993	2,768,648
-254,227	Operating Result	-62,018	-187,763	-203	-43,646	130,396	192,622

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

Budget as at 30/6/06 \$'000		Est.Outcome as at 30/6/06 \$'000	Planned as at 30/6/07 \$'000	Var %	Planned as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000
Current Assets							
6,079	Cash	4,316	3,143	-27	3,655	7,314	7,471
109,305	Receivables	129,344	153,558	19	174,509	195,467	215,874
298,749	Investments	493,212	284,669	-42	246,052	384,719	582,468
12,875	Other	11,348	11,348	-	11,348	11,348	11,348
427,008	Total Current Assets	638,220	452,718	-29	435,564	598,848	817,161
Non Current Assets							
354,334	Receivables	381,512	387,826	2	414,836	447,655	463,491
236,355	Investments	230,934	179,616	-22	157,057	156,537	155,360
28,244	Property, Plant and Equipment	25,781	11,461	-56	553	277	0
618,933	Total Non Current Assets	638,227	578,903	-9	572,446	604,469	618,851
1,045,941	TOTAL ASSETS	1,276,447	1,031,621	-19	1,008,010	1,203,317	1,436,012
Current Liabilities							
23,495	Payables	15,181	10,153	-33	10,581	11,016	11,458
214,842	Interest Bearing Liabilities	255,731	182,092	-29	208,315	238,950	262,661
11,517	Finance Leases	12,118	11,462	-5	554	278	1
249,854	Total Current Liabilities	283,030	203,707	-28	219,450	250,244	274,120
Non Current Liabilities							
730,130	Interest Bearing Liabilities	749,595	749,243	..	751,422	783,669	798,299
16,727	Finance Leases	13,664	0	-100	0	0	0
746,857	Total Non Current Liabilities	763,259	749,243	-2	751,422	783,669	798,299
996,711	TOTAL LIABILITIES	1,046,289	952,950	-9	970,872	1,033,913	1,072,419
49,230	NET ASSETS	230,158	78,671	-66	37,138	169,404	363,593
REPRESENTED BY FUNDS EMPLOYED							
49,230	Accumulated Funds	230,158	78,671	-66	37,138	169,404	363,593
49,230	TOTAL FUNDS EMPLOYED	230,158	78,671	-66	37,138	169,404	363,593

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

2005-06 Budget \$'000		2005-06 Est.Outcome \$'000	2006-07 Budget \$'000	Var %	2007-08 Estimate \$'000	2008-09 Estimate \$'000	2009-10 Estimate \$'000
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts							
12,939	Cash from Government for EBT	12,486	11,943	-4	11,916	11,888	11,862
63,773	Interest Received	71,981	61,011	-15	53,622	58,101	68,552
104,963	Other Revenue	100,688	172,808	72	164,038	158,745	142,107
2,248,244	Territory Receipts transferred from Agencies	2,228,932	2,331,103	5	2,462,104	2,599,115	2,733,848
2,429,919	Operating Receipts	2,414,087	2,576,865	7	2,691,680	2,827,849	2,956,369
Payments							
58,706	Borrowing Costs	61,564	56,109	-9	57,369	59,598	61,228
34	Other	43	29	-33	20	25	36
30,228	Payments to PTE Agencies for Outputs	29,951	31,828	6	32,265	32,706	33,201
1,702,652	Payments to GGS Agencies for Outputs	1,694,390	1,808,714	7	1,798,857	1,844,413	1,901,441
405,344	Payments to Agencies for EBT	372,465	404,308	9	468,980	507,812	541,730
2,196,964	Operating Payments	2,158,413	2,300,988	7	2,357,491	2,444,554	2,537,636
232,955	NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	255,674	275,877	8	334,189	383,295	418,733
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
0	Proceeds from Sale/Maturities of Investments	0	51,318	#	22,559	520	1,177
10,599	Repayment of Advance	9,817	12,728	30	18,009	28,588	32,782
5,000	Capital Distributions from Government Agencies	7,000	36,339	419	2,225	1,655	1,205
15,599	Investing Receipts	16,817	100,385	497	42,793	30,763	35,164
Payments							
19,131	Purchase of Investments	11,408	0	-100	0	0	0
0	Advances Issued to Government Agencies	25,000	25,600	2	55,600	65,600	50,600
466,568	Capital Payments to Government Agencies	331,146	486,600	47	388,102	269,229	243,945
485,699	Investing Payments	367,554	512,200	39	443,702	334,829	294,545
-470,100	NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	-350,737	-411,815	-17	-400,909	-304,066	-259,381

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

2005-06 Budget \$'000		2005-06 Est.Outcome \$'000	2006-07 Budget \$'000	Var %	2007-08 Estimate \$'000	2008-09 Estimate \$'000	2009-10 Estimate \$'000
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
214	Capital Injection from Government	214	214	-	214	214	214
0	Borrowings Received	45,690	0	-100	33,621	63,438	38,895
214	Financing Receipts	45,904	214	-100	33,835	63,652	39,109
Payments							
10,641	Repayment of Borrowings	554	1,525	175	554	554	554
36,297	Repayment of Investments to Agencies (CFU only)	54,327	72,465	33	4,669	0	0
46,938	Financing Payments	54,881	73,990	35	5,223	554	554
-46,724	NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	-8,977	-73,776	-722	28,612	63,098	38,555
-283,869	NET INCREASE/(DECREASE) IN CASH HELD	-104,040	-209,714	-102	-38,108	142,327	197,907
588,687	CASH AT BEGINNING OF REPORTING PERIOD	601,569	497,529	-17	287,815	249,707	392,034
304,818	CASH AT THE END OF THE REPORTING PERIOD	497,529	287,815	-42	249,707	392,034	589,941

**Central Financing Unit
Statement of Changes in Equity on Behalf of the Territory**

Budget as at 30/6/06 \$'000		Est.Outcome as at 30/6/06 \$'000	Planned as at 30/6/07 \$'000	Var %	Planned as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000
298,243	Opening Balance	284,962	230,158	-19	78,671	37,138	169,404
	Accumulated Funds						
-254,227	Operating Result for the Period	-62,018	-187,763	-203	-43,646	130,396	192,622
	Reserves						
-254,227	Total Income And Expense For The Period	-62,018	-187,763	-203	-43,646	130,396	192,622
	Transactions Involving Equity Holders Affecting Accumulated Funds						
214	Capital Injections	214	214	-	214	214	214
5,000	Capital (Distributions)	7,000	36,062	415	1,899	1,656	1,353
49,230	Closing Balance	230,158	78,671	-66	37,138	169,404	363,593

Notes to the Budget Statements

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.

Significant variations are as follows:

Statement of Income 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 actual debt servicing interest costs are directly influenced by prevailing market interest rates.
 - variances reflect the difference between budgeted interest rates and actual interest rates.
- interest: represents investment interest returns received from banks and fund managers and interest paid by agencies for loans provided from the Territory Banking Bank (TBA).
 - the increase of \$6.301 million in the 2005-06 estimated outcome from the original budget is due mainly to higher balances of funds under investment; and
 - the decrease of \$9.106 million in the 2006-07 Budget from the 2005-06 estimated outcome comprises a reduction in investment earnings due to a lower level of funds to be held on investment during the year (\$10.482 million), offset by an increase in loan interest (\$1.376 million).

- other revenue: represents notional CSS and PSS employer superannuation contributions from agencies. Variances are driven by agency activities. The increase of \$66.755 million in the 2006-07 Budget from 2005-06 estimated outcome reflects a change of accounting policy whereby all contributions will be made to the Territory Banking Account as opposed to the current arrangement where contributions payable from non-budget funded agencies are paid to the Superannuation Provision Account.
- transfer revenue: represents the transfer from agencies of revenue received on behalf of the Territory and includes taxes, fees, fines and grants. Variances are driven by agency activity.
- borrowing costs: represents interest payments made in respect of borrowings for the general government sector and ACTEW Corporation and investment interest payments to agencies.
 - the increase of \$2.038 million in the 2005-06 estimated outcome from the original budget mainly reflects higher payments of investment interest to agencies than originally anticipated due to higher balances of funds under investment; and
 - the decrease of \$4.657 million in the 2006-07 Budget from the 2005-06 estimated outcome reflects lower anticipated payments of investment interest to agencies as a result of the introduction of cash management reforms whereby most cash will be maintained centrally.
- other expenses: includes investment related management fees for general government investments.
 - the increase of \$2.133 million in the 2005-06 estimated outcome from the original budget is largely due to an unrealised loss in respect of the general government fixed interest investment portfolio (\$2.016 million), which was not anticipated in the original budget. The 2005-06 estimated outcome also includes the write-off of receivables associated with an internal loan (\$3.842 million); and
 - the decrease of \$5.999 million in the 2006-07 Budget from the 2005-06 estimate outcome is due to the absence of the above-mentioned one-off expenses for 2005-06.
- 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.

Statement of Assets and Liabilities on Behalf of the Territory

- current receivables:
 - the increase of \$20.039 million in the 2005-06 estimated outcome from the original budget is mainly due to higher transfer revenue accrued; and
 - the increase of \$24.214 million in 2006-07 Budget from the 2005-06 estimated outcome is mainly due to loans provided to Rhodium Asset Solutions (Rhodium) to finance the ACT Government passenger and light commercial vehicle fleet from 1 July 2006.
- non current receivables:
 - the increase of \$27.178 million in the 2005-06 estimated outcome from the original budget is mainly due to an increase in loans provided to ACTEW; and

- the increase of \$6.314 million in the 2006-07 Budget from the 2005-06 estimated outcome is due largely to new loans provided to Rhodium.
- current and non current investments: represents the total of all agency and the Territory Banking Account funds held on investment. Variances are driven by agency activity.
- property, plant and equipment: represents the Territory’s motor vehicle assets leased through the ACT Fleet Financing Facility with Macquarie Bank. From 1 July 2006 new ACT Fleet vehicles will be funded from loans provided to Rhodium, with the vehicles financed under the current facility reducing as leases expire and vehicles are sold. This is reflected by the decrease in the estimated balance across the budget and forward years.
- interest bearing liabilities (current and non current): comprises agencies investment deposits with the CFU and external market borrowings. External borrowings include commercial paper and indexed annuity bonds. The 2005-06 estimated outcome comprises \$584.576 million external borrowings and \$420.751 million agency investments. The 2006-07 Budget comprises \$583.050 million external borrowings and \$348.285 million agency investments.
- finance leases: represents the Territory’s motor vehicle financing facility with Macquarie Bank. From 1 July 2006 new ACT Fleet vehicles will be funded from loans provided to Rhodium, with the vehicles financed under the current facility reducing as leases expire and vehicles are sold. This is reflected by the decrease in the estimated balance across the budget and forward years.

