

# TERRITORY BANKING ACCOUNT

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## Objectives

The Territory Banking Account objectives are to effectively manage capital market functions through the maximisation of returns on investments, within relevant risk tolerances; to achieve competitive borrowing rates commensurate with the Territory's credit rating; and to develop effective financial risk management strategies.

Treasury 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.

Treasury, through the Territory Banking Account (TBA), recognises and manages the general government's investment assets and debt liabilities. Revenues on behalf of the Territory are transferred to the TBA and fortnightly appropriation disbursements are made to agencies from the TBA.

## 2010-11 Priorities

Strategic and operational issues to be pursued in 2010-11 include:

- managing the General Government Sector's debt portfolio and associated risks;
- managing, monitoring and reviewing, as necessary, the TBA investment portfolio in accordance with the established investment policies; and
- undertaking policy research and development for the implementation of value-adding investment strategies for the TBA investment 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 undertaken in conjunction with the Territory's investment adviser and the 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.

## Estimated Employment Level

2008-09 Actual	2009-10 Budget	2009-10 Est. Outcome	2010-11 Budget
- Staffing (FTE) <sup>1</sup>	-	-	-

### Note:

1. The officers responsible for undertaking the functions of the TBA are employees of the Department of Treasury.

## **Strategic Indicators**

### **Strategic Indicator 1**

#### Investment Returns Meeting or Exceeding Benchmark

The 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 rate of interest.

The strategic indicator for the management of the debt portfolio is a maximum of 30 per cent of the general government debt portfolio be exposed to floating (variable) interest rates.

## Output Classes

	Total Cost		Payment for Expenses on Behalf of the Territory	
	2009-10 Est. Outcome \$'000	2010-11 Budget \$'000	2009-10 Est. Outcome \$'000	2010-11 Budget \$'000
<b>EBT 1:</b>				
<b>Territory Banking Account</b>	3,723,283	3,987,634	11,376	11,839
<b>Output EBT 1: Territory Banking Account</b>	3,723,283	3,987,634	11,376	11,839

### *Description*

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

The key outputs to be delivered in 2010-11 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.

## Accountability Indicators

	2009-10 Targets	2009-10 Est. Outcome	2010-11 Targets
<b>1.1: Territory Banking Account</b>			
a. Difference between the net investment earnings rate and the benchmark is to be $\geq 0$ <sup>1</sup>	$\geq 0$	1.55	$\geq 0$
b. Exposure of debt portfolio to floating interest rates	< 30%	19.60%	< 30%

### **Note:**

1. The cash enhanced fund component of the investment portfolio has a large exposure to debt instruments. Following a recovery in credit markets significant capital gains are now being recognised. The benchmark index does not include securities with similar credit exposure.

## Changes to Appropriation

### Changes to Appropriation - Territorial

	2009-10	2010-11	2011-12	2012-12	2013-14
Payment for Expenses on Behalf of Territory	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2009-10 Budget</b>	<b>10,671</b>	<b>10,939</b>	<b>31,079</b>	<b>31,052</b>	<b>31,052</b>
<b>2010-11 Budget Technical Adjustments</b>					
Interest Rate Adjustment	712	1,679	4,871	4,871	4,886
Interest on Borrowings	(7)	(779)	(4,273)	1,978	1,820
<b>2010-11 Budget</b>	<b>11,376</b>	<b>11,839</b>	<b>31,677</b>	<b>37,901</b>	<b>37,758</b>

### Changes to Appropriation - Territorial

	2009-10	2010-11	2011-12	2012-12	2013-14
Capital Injections	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2009-10 Budget</b>	<b>214</b>	<b>214</b>	<b>214</b>	<b>214</b>	<b>214</b>
<b>2010-11 Budget</b>	<b>214</b>	<b>214</b>	<b>214</b>	<b>214</b>	<b>214</b>

**Territory Banking Account**  
**Statement of Income and Expenses on Behalf of the Territory**

2009-10 Budget \$'000		2009-10 Est.Outcome \$'000	2010-11 Budget \$'000	Var %	2011-12 Estimate \$'000	2012-13 Estimate \$'000	2013-14 Estimate \$'000
<b>Income</b>							
<b>Revenue</b>							
10,671	Payment for Expenses on Behalf of Territory	11,376	11,839	4	31,677	37,901	37,758
89,493	Interest	97,245	107,713	11	109,861	124,228	129,452
120,134	Other Revenue	151,146	123,526	-18	111,747	101,728	92,209
3,095,043	Transfer Revenue	3,241,986	3,230,322	..	3,405,782	3,612,403	3,726,244
<b>3,315,341</b>	<b>Total Revenue</b>	<b>3,501,753</b>	<b>3,473,400</b>	<b>-1</b>	<b>3,659,067</b>	<b>3,876,260</b>	<b>3,985,663</b>
<b>Gains</b>							
<b>0</b>	<b>Total Gains</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>3,315,341</b>	<b>Total Income</b>	<b>3,501,753</b>	<b>3,473,400</b>	<b>-1</b>	<b>3,659,067</b>	<b>3,876,260</b>	<b>3,985,663</b>
<b>Expenses</b>							
77,119	Borrowing Costs	88,641	101,011	14	125,814	140,848	140,923
855	Other Expenses	1,572	362	-77	262	287	287
3,697,460	Transfer Expenses	3,633,070	3,886,261	7	3,697,405	3,619,659	3,608,181
<b>3,775,434</b>	<b>Total Ordinary Expenses</b>	<b>3,723,283</b>	<b>3,987,634</b>	<b>7</b>	<b>3,823,481</b>	<b>3,760,794</b>	<b>3,749,391</b>
<b>-460,093</b>	<b>Operating Result</b>	<b>-221,530</b>	<b>-514,234</b>	<b>132</b>	<b>-164,414</b>	<b>115,466</b>	<b>236,272</b>
0	Increase/(Decrease) in Other Reserves	2,647	-1	-100	-3	1	1
<b>0</b>	<b>Total Other Comprehensive Income</b>	<b>2,647</b>	<b>-1</b>	<b>-100</b>	<b>-3</b>	<b>1</b>	<b>1</b>
<b>-460,093</b>	<b>Total Comprehensive Income</b>	<b>-218,883</b>	<b>-514,235</b>	<b>-135</b>	<b>-164,417</b>	<b>115,467</b>	<b>236,273</b>

**Territory Banking Account**  
**Statement of Assets and Liabilities on Behalf of the Territory**

Budget as at 30/6/10 \$'000		Est.Outcome as at 30/6/10 \$'000	Planned as at 30/6/11 \$'000	Var %	Planned as at 30/6/12 \$'000	Planned as at 30/6/13 \$'000	Planned as at 30/6/14 \$'000
<b>Current Assets</b>							
684	Cash and Cash Equivalents	5,000	5,000	-	5,087	7,305	4,770
301,075	Receivables	344,520	360,708	5	335,968	366,082	431,605
412,354	Investments	990,926	428,639	-57	450,190	565,724	780,170
2,149	Other	1,476	1,476	-	1,476	1,476	1,476
<b>716,262</b>	<b>Total Current Assets</b>	<b>1,341,922</b>	<b>795,823</b>	<b>-41</b>	<b>792,721</b>	<b>940,587</b>	<b>1,218,021</b>
<b>Non Current Assets</b>							
1,032,740	Receivables	965,185	1,306,109	35	1,465,315	1,454,764	1,441,643
190,285	Investments	217,659	158,653	-27	154,841	150,805	146,696
<b>1,223,025</b>	<b>Total Non Current Assets</b>	<b>1,182,844</b>	<b>1,464,762</b>	<b>24</b>	<b>1,620,156</b>	<b>1,605,569</b>	<b>1,588,339</b>
<b>1,939,287</b>	<b>TOTAL ASSETS</b>	<b>2,524,766</b>	<b>2,260,585</b>	<b>-10</b>	<b>2,412,877</b>	<b>2,546,156</b>	<b>2,806,360</b>
<b>Current Liabilities</b>							
7,709	Payables	4,061	4,061	-	4,061	4,061	4,061
467,878	Interest Bearing Liabilities	871,067	580,897	-33	546,912	576,965	616,033
<b>475,587</b>	<b>Total Current Liabilities</b>	<b>875,128</b>	<b>584,958</b>	<b>-33</b>	<b>550,973</b>	<b>581,026</b>	<b>620,094</b>
<b>Non Current Liabilities</b>							
1,220,606	Interest Bearing Liabilities	1,094,965	1,632,354	49	1,980,779	1,966,269	1,948,863
9,504	Other	1,632	1,632	-	1,632	1,632	1,632
<b>1,230,110</b>	<b>Total Non Current Liabilities</b>	<b>1,096,597</b>	<b>1,633,986</b>	<b>49</b>	<b>1,982,411</b>	<b>1,967,901</b>	<b>1,950,495</b>
<b>1,705,697</b>	<b>TOTAL LIABILITIES</b>	<b>1,971,725</b>	<b>2,218,944</b>	<b>13</b>	<b>2,533,384</b>	<b>2,548,927</b>	<b>2,570,589</b>
<b>233,590</b>	<b>NET ASSETS</b>	<b>553,041</b>	<b>41,641</b>	<b>-92</b>	<b>-120,507</b>	<b>-2,771</b>	<b>235,771</b>
<b>REPRESENTED BY FUNDS EMPLOYED</b>							
243,128	Accumulated Funds	554,742	43,343	-92	-118,802	-1,067	237,474
-9,538	Reserves	-1,701	-1,702	..	-1,705	-1,704	-1,703
<b>233,590</b>	<b>TOTAL FUNDS EMPLOYED</b>	<b>553,041</b>	<b>41,641</b>	<b>-92</b>	<b>-120,507</b>	<b>-2,771</b>	<b>235,771</b>

**Territory Banking Account**  
**Budgeted Statement of Cash Flows on Behalf of the Territory**

2009-10 Budget \$'000		2009-10 Est.Outcome \$'000	2010-11 Budget \$'000	Var %	2011-12 Estimate \$'000	2012-13 Estimate \$'000	2013-14 Estimate \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
<b>Receipts</b>							
10,671	Cash from Government for EBT	11,376	11,839	4	31,677	37,901	37,758
88,640	Interest Received	123,687	99,489	-20	101,244	115,609	120,727
125,115	Other Revenue	123,333	123,917	..	111,398	101,374	92,013
3,114,460	Territory Receipts transferred from Agencies	3,253,113	3,232,817	-1	3,374,990	3,600,887	3,679,050
<b>3,338,886</b>	<b>Operating Receipts</b>	<b>3,511,509</b>	<b>3,468,062</b>	<b>-1</b>	<b>3,619,309</b>	<b>3,855,771</b>	<b>3,929,548</b>
<b>Payments</b>							
78,307	Borrowing Costs	89,543	92,889	4	117,204	132,238	132,215
75	Other	103	32	-69	24	26	26
56,709	Payments to PTE Agencies for Outputs	57,419	53,812	-6	51,896	51,886	50,758
2,147,324	Payments to GGS Agencies for Outputs	2,150,567	2,314,013	8	2,342,567	2,421,940	2,509,267
526,476	Payments to Agencies for EBT	536,734	504,943	-6	558,678	621,308	665,973
<b>2,808,891</b>	<b>Operating Payments</b>	<b>2,834,366</b>	<b>2,965,689</b>	<b>5</b>	<b>3,070,369</b>	<b>3,227,398</b>	<b>3,358,239</b>
<b>529,995</b>	<b>NET CASH INFLOW/ (OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>677,143</b>	<b>502,373</b>	<b>-26</b>	<b>548,940</b>	<b>628,373</b>	<b>571,309</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
<b>Receipts</b>							
789,323	Proceeds from Sale/Maturities of Investments	263,663	621,293	136	0	0	0
16,734	Repayment of Advance	20,522	19,307	-6	91,114	19,988	22,487
0	Other	41,575	0	-100	33,838	26,166	32,324
3,366	Capital Distributions from Government Agencies	1,423	2,473	74	1,907	1,907	1,907
<b>809,423</b>	<b>Investing Receipts</b>	<b>327,183</b>	<b>643,073</b>	<b>97</b>	<b>126,859</b>	<b>48,061</b>	<b>56,718</b>
<b>Payments</b>							
0	Purchase of Investments	0	0	-	17,739	111,499	210,336
278,000	Advances Issued to Government Agencies	338,000	350,000	4	167,000	0	0
985,382	Capital Payments to Government Agencies	905,459	1,021,798	13	759,593	540,375	398,033
310,840	Other Payments	0	304,527	-	0	2,600	0
<b>1,574,222</b>	<b>Investing Payments</b>	<b>1,243,459</b>	<b>1,676,325</b>	<b>34</b>	<b>944,332</b>	<b>654,474</b>	<b>608,369</b>
<b>-764,799</b>	<b>NET CASH INFLOW/ (OUTFLOW) FROM INVESTING ACTIVITIES</b>	<b>-916,276</b>	<b>-1,033,252</b>	<b>-13</b>	<b>-817,473</b>	<b>-606,413</b>	<b>-551,651</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
<b>Receipts</b>							
214	Capital Injection from Government	214	214	-	214	214	214
235,251	Borrowings Received	311,934	531,219	70	268,960	0	0
<b>235,465</b>	<b>Financing Receipts</b>	<b>312,148</b>	<b>531,433</b>	<b>70</b>	<b>269,174</b>	<b>214</b>	<b>214</b>
<b>Payments</b>							
555	Repayment of Borrowings	554	554	-	554	19,956	22,407
<b>555</b>	<b>Financing Payments</b>	<b>554</b>	<b>554</b>	<b>-</b>	<b>554</b>	<b>19,956</b>	<b>22,407</b>
<b>234,910</b>	<b>NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES</b>	<b>311,594</b>	<b>530,879</b>	<b>70</b>	<b>268,620</b>	<b>-19,742</b>	<b>-22,193</b>
<b>106</b>	<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>72,461</b>	<b>0</b>	<b>-100</b>	<b>87</b>	<b>2,218</b>	<b>-2,535</b>
<b>578</b>	<b>CASH AT BEGINNING OF REPORTING PERIOD</b>	<b>-67,461</b>	<b>5,000</b>	<b>107</b>	<b>5,000</b>	<b>5,087</b>	<b>7,305</b>
<b>684</b>	<b>CASH AT THE END OF THE REPORTING PERIOD</b>	<b>5,000</b>	<b>5,000</b>	<b>-</b>	<b>5,087</b>	<b>7,305</b>	<b>4,770</b>

**Territory Banking Account.**  
**Statement of Changes in Equity on Behalf of the Territory**

Budget as at 30/6/10 \$'000		Est.Outcome as at 30/6/10 \$'000	Planned as at 30/6/11 \$'000	Var %	Planned as at 30/6/12 \$'000	Planned as at 30/6/13 \$'000	Planned as at 30/6/14 \$'000
	<b>Opening Equity</b>						
696,169	Opening Accumulated Funds	771,277	554,742	-28	43,343	-118,802	-1,067
-9,541	Opening Other Reserve	-4,348	-1,701	-61	-1,702	-1,705	-1,704
<b>686,628</b>	<b>Balance at the Start of the Reporting Period</b>	<b>766,929</b>	<b>553,041</b>	<b>-28</b>	<b>41,641</b>	<b>-120,507</b>	<b>-2,771</b>
	<b>Comprehensive Income</b>						
-460,093	Operating Result for the Period	-221,530	-514,234	132	-164,414	115,466	236,272
3	Increase/(Decrease) in Other Reserves	2,647	-1	-100	-3	1	1
<b>-460,090</b>	<b>Total Comprehensive Income</b>	<b>-218,883</b>	<b>-514,235</b>	<b>135</b>	<b>-164,417</b>	<b>115,467</b>	<b>236,273</b>
<b>0</b>	<b>Total Movement in Reserves</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Transactions Involving Owners Affecting Accumulated Funds</b>						
214	Capital Injections	214	214	-	214	214	214
3,514	Capital Distributions	1,572	2,621	67	2,055	2,055	2,055
3,324	Increase/(Decrease) in Net Assets due to Admin Restructure	3,209	0	-100	0	0	0
<b>7,052</b>	<b>Total Transactions Involving Owners Affecting Accumulated Funds</b>	<b>4,995</b>	<b>2,835</b>	<b>-43</b>	<b>2,269</b>	<b>2,269</b>	<b>2,269</b>
	<b>Closing Equity</b>						
243,128	Closing Accumulated Funds	554,742	43,343	-92	-118,802	-1,067	237,474
-9,538	Closing Other Reserve	-1,701	-1,702	..	-1,705	-1,704	-1,703
<b>233,590</b>	<b>Balance at the End of the Reporting Period</b>	<b>553,041</b>	<b>41,641</b>	<b>-92</b>	<b>-120,507</b>	<b>-2,771</b>	<b>235,771</b>

### Notes to the Budget Statements

Many of the variations within the TBA 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; and
  - 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 TBA:
  - the net increase of \$7.752 million in the 2009-10 estimated outcome from the original budget is due mainly to higher returns as a result of increases to cash rates during the year; and
  - the increase of \$10.468 million in the 2010-11 Budget from the 2009-10 estimated outcome comprises a decrease in investment earnings due to a lower level of funds to be held on investment during the year (\$17.596 million), and a net increase in loan interest mainly due to new ACTEW Corporation borrowings (\$27.885 million).
- other revenue: represents market gains from investments and notional CSS and PSS employer superannuation contributions from agencies:
  - the net increase of \$31.012 million in the 2009-10 estimated outcome from the original budget is mainly due to capital gains from investments resulting from the improvement in credit markets. The level of these gains is an irregular event for the cash enhanced investment portfolio and is a result of the credit crisis experienced during 2008-09; and
  - the net decrease of \$27.620 million in the 2010-11 Budget from the 2009-10 estimated outcome reflects a return to normal investment returns for the investment portfolio with no significant capital gains expected (\$26.879 million) and a reduction in agency employer superannuation contributions (\$0.741 million). Variances from agency employer superannuation contributions are driven by agency activities.
- 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 net increase of \$11.522 million in the 2009-10 estimated outcome from the original budget mainly reflects higher payments of investment interest to agencies than originally anticipated due to a higher return rate on funds under investment (\$21.237 million), partially offset by lower interest costs on borrowings due to lower variable interest rates (\$9.715 million); and
  - the net increase of \$12.370 million in the 2010-11 Budget from the 2009-10 estimated outcome is mainly due to increased interest payments for borrowings undertaken on behalf of ACTEW Corporation (\$26.681 million), partially offset by lower payments of investment interest to agencies due to lower balances of funds under investment (\$14.311 million).
- other expenses: represents investment related management fees for the investments managed through the TBA and unrealised investment capital losses:
  - the increase of \$0.717 million in the 2009-10 estimated outcome from the original budget is due to investment management fees from higher balances of funds under investment (\$0.275 million) and unrealised investment capital losses (\$0.442 million); and

- the decrease of \$1.210 million in the 2010-11 Budget from the 2009-10 estimated outcome reflects a return to normal investment returns for the investment portfolio with no significant capital losses expected (\$0.442 million) and a reduction in investment related management fees due to a lower level of funds under investment (\$0.768 million).
- 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*

- cash and cash equivalents: the increase of \$4.316 million in the 2009-10 estimated outcome from the original budget reflects the amount of cash held at bank as opposed to being held under investment.
- current and non current receivables:
  - the net decrease of \$24.110 million in the 2009-10 estimated outcome from the original budget is mainly due to a decrease in loans receivable from ACTEW Corporation (\$67.555 million), partially offset by an increase in trade debtors receivable from agencies (\$46.482 million); and
  - the increase of \$357.112 million in the 2010-11 Budget from the 2009-10 estimated outcome is mainly due to an increase in trade debtors receivable from agencies (\$14.743 million) and an increase in loans receivable from ACTEW Corporation (\$339.130 million).
- current and non current investments:
  - the increase of \$605.946 million in the 2009-10 estimated outcome from the original budget is due to net higher than expected levels of investment, comprising of TBA (\$249.435 million), the cash investments of the Superannuation Provision Account which are invested through the TBA (\$308.623 million) and agencies (\$47.888 million); and
  - the decrease of \$621.293 million in the 2010-11 Budget from the 2009-10 estimated outcome predominantly reflects a reduction in the cash investments of the Superannuation Provision Account as they are reallocated to other asset classes (\$308.623 million) and a reduction in the cash investments of the TBA to meet funding commitments.
- other non current liabilities: represents the fair value of the interest rate swaps transacted to manage the interest rate and duration of the general government component of the borrowing portfolio. The decrease of \$7.872 million in the 2009-10 estimated outcome from the original budget reflects the impact on the fair value of the interest rates swaps as a result of increases to interest rates during the 2009-10 year;
- current and non current interest bearing liabilities: comprises agencies' investment deposits with the TBA and external market borrowings. External borrowings include electronic promissory notes and indexed annuity bonds. The 2009-10 estimated outcome comprises \$1,214.100 million external borrowings and \$751.932 million agency investments. The 2010-11 Budget comprises \$1,756.804 million external borrowings and \$456.447 million agency investments.

#### *Statement of Changes in Equity on behalf of the Territory*

Variances in the statement are explained in the notes above.