

TERRITORY BANKING ACCOUNT

Objectives

An objective of Treasury is to effectively manage capital market 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.

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 the debt liabilities. Revenues on behalf of the Territory are transferred to the TBA and fortnightly appropriation disbursements are made to agencies from the TBA.

2008-09 Priorities

Strategic and operational issues to be pursued in 2008-09 include:

- managing the Government's debt portfolio and associated risks;
- managing the General Government Sector's investment portfolio and devising effective investment policies with the aim of maximising returns on the portfolio; and
- undertaking a strategic review of the 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

2007-08 Budget	2007-08 Est. Outcome	2008-09 Budget
-	-	-

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 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 year.

Output Classes

	Total Cost		Expenses on Behalf of the Territory	
	2007-08	2008-09	2007-08	2008-09
	Est. Outcome \$'000	Budget \$'000	Est. Outcome \$'000	Budget \$'000
EBT 1: Territory Banking Account	2,892,913	3,302,162	12,689	12,860
Output EBT 1: Territory Banking Account	2,892,913	3,302,162	12,689	12,860

Description

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

The key outputs to be delivered in 2008-09 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

	2007-08 Targets	2007-08 Est. Outcome	2008-09 Targets
1.1: Territory Banking Account			
a. Ratio of investment earnings rate divided by the established benchmark	≥ 1	0.85	≥ 1
b. Exposure of debt portfolio to floating interest rates	< 30%	18%	< 30%
c. Modified duration of debt portfolio	between 2.5 and 3.5 years	3.0 years	between 2.5 and 3.5 years

Changes to Appropriation

Changes to Appropriation - Territorial

	2007-08	2008-09	2009-10	2010-11	2011-12
Payment for Expenses on Behalf of Territory	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2007-08 Budget	12,288	12,267	12,313	12,465	12,465
2008-09 Budget Technical Adjustments					
Interest Rate Adjustment	401	593	691	1,421	1,394
2008-09 Budget	12,689	12,860	13,004	13,886	13,859

Changes to Appropriation - Territorial

	2007-08	2008-09	2009-10	2010-11	2011-12
Capital Injections	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2007-08 Budget	214	214	214	214	214
	-	-	-	-	-
2008-09 Budget	214	214	214	214	214

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

2007-08 Budget \$'000		2007-08 Est.Outcome \$'000	2008-09 Budget \$'000	Var %	2009-10 Estimate \$'000	2010-11 Estimate \$'000	2011-12 Estimate \$'000
Income							
Revenue							
12,288	Payment for Expenses on behalf of Territory	12,689	12,860	1	13,005	13,886	13,859
91,649	Interest	104,551	145,614	39	157,376	164,189	172,370
142,942	Other Revenue	118,136	118,251	..	115,792	108,675	101,394
2,707,273	Transfer Revenue	2,909,660	3,056,900	5	3,086,078	3,231,623	3,300,323
2,954,152	Total Revenue	3,145,036	3,333,625	6	3,372,251	3,518,373	3,587,946
Gains							
0	Total Gains	0	0	-	0	0	0
2,954,152	Total Income	3,145,036	3,333,625	6	3,372,251	3,518,373	3,587,946
Expenses							
66,120	Borrowing Costs	74,780	87,116	16	95,926	98,463	96,712
516	Other Expenses	788	815	3	719	775	893
2,939,517	Transfer Expenses	2,817,345	3,214,231	14	3,256,454	3,242,090	3,275,172
3,006,153	Total Ordinary Expenses	2,892,913	3,302,162	14	3,353,099	3,341,328	3,372,777
-52,001	Operating Result	252,123	31,463	-88	19,152	177,045	215,169

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

Budget as at 30/6/08 \$'000		Est.Outcome as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000	Var %	Planned as at 30/6/10 \$'000	Planned as at 30/6/11 \$'000	Planned as at 30/6/12 \$'000
Current Assets							
489,280	Cash and Cash Equivalents	4,943	5,012	1	4,270	5,011	4,979
150,486	Receivables	206,610	190,944	-8	189,392	202,082	218,185
0	Investments	1,064,737	842,754	-21	839,560	1,009,979	1,214,141
300	Other	2,887	2,887	-	2,887	2,887	2,887
640,066	Total Current Assets	1,279,177	1,041,597	-19	1,036,109	1,219,959	1,440,192
Non Current Assets							
511,937	Receivables	672,834	959,724	43	984,712	980,321	972,557
191,137	Investments	182,788	182,438	..	182,409	182,255	181,946
3,832	Property, Plant and Equipment	2,044	1,014	-50	0	0	0
0	Other	5,292	5,292	-	5,292	5,292	5,292
706,906	Total Non Current Assets	862,958	1,148,468	33	1,172,413	1,167,868	1,159,795
1,346,972	TOTAL ASSETS	2,142,135	2,190,065	2	2,208,522	2,387,827	2,599,987
Current Liabilities							
6,963	Payables	7,584	5,641	-26	5,641	5,641	5,641
239,006	Interest Bearing Liabilities	454,137	214,943	-53	233,581	254,955	267,650
2,623	Finance Leases	1,029	1,014	-1	0	0	0
0	Other Provisions	0	4,162	#	0	0	0
248,592	Total Current Liabilities	462,750	225,760	-51	239,222	260,596	273,291
Non Current Liabilities							
754,948	Interest Bearing Liabilities	925,619	1,182,280	28	1,162,129	1,140,808	1,122,671
1,209	Finance Leases	1,014	0	-100	0	0	0
4,503	Other Provisions	4,162	0	-100	0	0	0
760,660	Total Non Current Liabilities	930,795	1,182,280	27	1,162,129	1,140,808	1,122,671
1,009,252	TOTAL LIABILITIES	1,393,545	1,408,040	1	1,401,351	1,401,404	1,395,962
337,720	NET ASSETS	748,590	782,025	4	807,171	986,423	1,204,025
REPRESENTED BY FUNDS EMPLOYED							
337,720	Accumulated Funds	743,337	776,770	4	801,913	981,166	1,198,771
0	Reserves	5,253	5,255	..	5,258	5,257	5,254
337,720	TOTAL FUNDS EMPLOYED	748,590	782,025	4	807,171	986,423	1,204,025

**Territory Banking Account
Budgeted Statement of Cashflows on Behalf of the Territory**

2007-08 Budget \$'000		2007-08 Est.Outcome \$'000	2008-09 Budget \$'000	Var %	2009-10 Estimate \$'000	2010-11 Estimate \$'000	2011-12 Estimate \$'000
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts							
12,288	Cash from Government for EBT	12,689	12,860	1	13,005	13,886	13,859
90,680	Interest Received	103,602	144,960	40	156,661	163,414	171,472
146,148	Other Revenue	116,675	124,860	7	119,185	108,220	101,220
2,707,286	Territory Receipts transferred from Agencies	2,878,281	3,080,911	7	3,094,946	3,230,712	3,298,092
2,956,402	Operating Receipts	3,111,247	3,363,591	8	3,383,797	3,516,232	3,584,643
Payments							
66,035	Borrowing Costs	75,979	87,056	15	95,928	98,469	96,716
43	Other	71	74	4	65	70	81
32,343	Payments to PTE Agencies for Outputs	32,462	33,212	2	33,393	33,921	34,616
1,863,740	Payments to GGS Agencies for Outputs	1,880,122	2,039,103	8	2,047,650	2,115,218	2,186,499
429,739	Payments to Agencies for EBT	400,638	452,599	13	536,277	575,575	622,593
2,391,900	Operating Payments	2,389,272	2,612,044	9	2,713,313	2,823,253	2,940,505
564,502	NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	721,975	751,547	4	670,484	692,979	644,138
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
24,500	Proceeds from Sale/Maturities of Investments	0	222,335	#	3,222	0	0
20,955	Repayment of Advance	80,771	21,975	-73	26,108	23,013	19,391
12,398	Other	2,533	153	-94	16,474	20,176	13,377
6,525	Capital Distributions from Government Agencies	8,930	1,755	-80	1,591	1,846	2,074
64,378	Investing Receipts	92,234	246,218	167	47,395	45,035	34,842
Payments							
0	Purchase of Investments	124,096	0	-100	0	170,266	203,851
113,557	Advances Issued to Government Agencies	325,940	313,000	-4	48,000	15,000	10,000
625,946	Capital Payments to Government Agencies	513,907	702,225	37	652,847	532,098	446,556
241,264	Repayment of Investments to Agencies (CFU only)	18,553	242,270	1,206	0	0	0
980,767	Investing Payments	982,496	1,257,495	28	700,847	717,364	660,407

Territory Banking Account
Budgeted Statement of Cashflows on Behalf of the Territory

2007-08 Budget \$'000		2007-08 Est.Outcome \$'000	2008-09 Budget \$'000	Var %	2009-10 Estimate \$'000	2010-11 Estimate \$'000	2011-12 Estimate \$'000
-916,389	NET CASH INFLOW/(OUTFLOW FROM INVESTING ACTIVITIES	-890,262	-1,011,277	-14	-653,452	-672,329	-625,565
	CASH FLOWS FROM FINANCING ACTIVITIES						
	Receipts						
214	Capital Injection from Government	214	214	-	214	214	214
45,660	Borrowings Received	221,434	260,139	17	0	0	0
45,874	Financing Receipts	221,648	260,353	17	214	214	214
	Payments						
554	Repayment of Borrowings	554	554	-	17,988	20,123	18,819
554	Financing Payments	554	554	-	17,988	20,123	18,819
45,320	NET CASH INFLOW/(OUTFLOW FROM FINANCING ACTIVITIES	221,094	259,799	18	-17,774	-19,909	-18,605
-306,567	NET INCREASE/(DECREASE IN CASH HELD	52,807	69	-100	-742	741	-32
795,811	CASH AT BEGINNING OF REPORTING PERIOD	-47,864	4,943	110	5,012	4,270	5,011
489,244	CASH AT THE END OF THE REPORTING PERIOD	4,943	5,012	1	4,270	5,011	4,979

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

Budget as at 30/6/08 \$'000		Est.Outcome as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000	Var %	Planned as at 30/6/10 \$'000	Planned as at 30/6/11 \$'000	Planned as at 30/6/12 \$'000
383,308	Opening Balance	486,357	748,590	54	782,025	807,171	986,423
	Accumulated Funds						
-52,001	Operating Result for the Period	252,123	31,463	-88	19,152	177,045	215,169
	Reserves						
0	Increase/(Decrease) in other reserves	1,292	2	-100	3	-1	-3
-52,001	Total Income And Expense For The Period	253,415	31,465	-88	19,155	177,044	215,166
	Transactions Involving Equity Holders Affecting Accumulated Funds						
214	Capital Injections	214	214	-	214	214	214
6,199	Capital (Distributions)	8,604	1,756	-80	1,739	1,994	2,222
0	Inc/Dec in Net Assets due to Admin Restructure	0	0	-	4,038	0	0
337,720	Closing Balance	748,590	782,025	4	807,171	986,423	1,204,025

Notes to the Budget Statements

Many of the variations within the Territory Banking Account (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 \$12.902 million in the 2007-08 estimated outcome from the original budget is due mainly to higher balances of funds under investment; and
 - the net increase of \$41.063 million in the 2008-09 Budget from the 2007-08 estimated outcome comprises an increase in investment earnings due to a higher level of funds to be held on investment during the year (\$26.595 million), and a net increase in loan interest mainly due to new ACTEW Corporation borrowings (\$13.326 million).

- other revenue: represents mainly notional CSS and PSS employer superannuation contributions from agencies. Variances 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 increase of \$8.660 million in the 2007-08 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 increase of \$12.336 million in the 2008-09 Budget from the 2007-08 estimated outcome is mainly due to interest payments for borrowings undertaken on behalf of ACTEW Corporation (\$12.334 million).
- other expenses: represents investment related management fees for the investments managed through the TBA. The increase of \$0.272 million in the 2007-08 estimated outcome from the original budget is due to higher balances of funds under investment, resulting in higher management fees payable. Management fees are based on the amount of funds under management.
- 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 decrease of \$484.337 million in the 2007-08 estimated outcome from the original budget is mainly due to a change in accounting policy, as highly liquid investments (previously considered as a part of cash and equivalents) are reclassified to current investments.
- current and non-current receivables: the increase of \$217.021 million in the 2007-08 estimated outcome from the original budget and the increase of \$271.224 million in the 2008-09 Budget from the 2007-08 estimated outcome is mainly due to the net increase in ACTEW Corporation's loans from the Territory.
- current and non current investments: the increase of \$1,056,388 million in the 2007-08 estimated outcome from the original budget is mainly due to the combination of higher than expected levels of investments within the TBA (\$361.504 million), Superannuation Provision Account's cash asset allocation presently invested through the TBA (\$242.432 million), and the change in classification of highly liquid assets from cash and cash equivalents to current investments (\$488.254 million).
- property, plant and equipment: represents the outstanding Territory motor vehicle assets leased through the now closed ACT Fleet Financing Facility with Macquarie Bank. The decrease in the estimated balance across the budget and forward years reflects the expiry of outstanding leases and subsequent sale of vehicles.

- 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 2007-08 estimated outcome comprises \$811.118 million external borrowings and \$568.638 million agency investments. The 2008-09 Budget comprises \$1,070.702 million external borrowings and \$326.521 million agency investments.
- finance leases: represents the outstanding balance of the Territory's motor vehicle financing facility with Macquarie Bank. This facility is no longer available to finance new ACT Fleet motor vehicles and is gradually being reduced as leases expire and vehicles are sold. This is reflected by the decrease in the estimated balance across the budget and forward years.
- current and non current other provisions: represents the balance of the 'Residual Management Reserve Account' for the Fleet Financing Facility with Macquarie Bank. This account reflects the accumulated shortfall of net sale proceeds against agreed residual values since the facility has been in place. It is likely that the account will be in a deficit balance position after the disposal of the last remaining vehicle leased from the facility in 2009-10. The provision reflects the expected amount that the Territory will be required to pay to discharge this liability.

Statement of Changes in Equity

Variations in the statement are explained in the notes above.

