TERRITORY BANKING ACCOUNT

Purpose

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. This includes the effective management of 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, 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.

2011-12 Priorities

Strategic and operational issues to be pursued in 2011-12 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
- implementation of any changes arising out of the Assembly Committee Review of ethical investments, as applicable to the TBA.

Estimated Employment Level

2009-10 Actual		2010-11 Budget	2010-11 Est. Outcome	2011-12 Budget
-	**Staffing (FTE)**[1]	-	-	-

Note:
1. The officers responsible for undertaking the functions of the TBA are employees of Treasury Directorate.

Strategic Objectives and Indicators

Strategic Objective 1
Effective Management of Investment and Borrowing Activities

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 Objective 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 target in the order of 30 per cent of the general government debt portfolio be exposed to floating (variable) interest rates.

Output Class

	Total Cost		Payment for Expenses on Behalf of the Territory	
	2010-11 Est. Outcome $'000	2011-12 Budget $'000	2010-11 Est. Outcome $'000	2011-12 Budget $'000
EBT 1:				
Territory Banking Account	3,931,563	4,305,389	11,022	17,848
Output EBT 1: Territory Banking Account	3,931,563	4,305,389	11,022	17,848

Description

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

The key outputs to be delivered in 2011-12 include:

- delivering an investment return on a net of fee basis at or above the cash rate or bank bill index, within acceptable risk tolerances;
- monitoring and reviewing the performance of the Territory's investment managers and investment service providers to achieve an investment return greater than benchmark;
- cash management; and
- achieving competitive borrowing rates commensurate with the ACT Government's credit rating.

Accountability Indicators

	2010-11 Targets	2010-11 Est. Outcome	2011-12 Targets
1.1: Territory Banking Account			
a. Difference between the net investment earnings rate and the benchmark is to be ≥ 0[1]	≥ 0	1.30	≥ 0
b. Exposure of debt portfolio to floating interest rates[2]	< 30%	72%	< 30%

Notes:

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.
2. This indicator reflects the amount of floating rate debt in the portfolio which will determine the degree to which changes in interest rates will impact on budgeted interest costs. The targeted floating versus fixed exposure ratio is considered to meet a general objective of stability in budgeted interest costs, but also provides some flexibility to strategically manage the debt portfolio in response to changes in economic conditions and other financial objectives. Reducing the current floating interest rate exposure will be done in conjunction with the new general government borrowings proposed for 2011-12.

Changes to Appropriation

Changes to Appropriation - Territorial

	2010-11 Est. Out. $'000	2011-12 Budget $'000	2012-13 Estimate $'000	2013-14 Estimate $'000	2014-15 Estimate $'000
2010-11 Budget	**11,839**	**31,677**	**37,901**	**37,758**	**37,758**
Interest Rate Adjustment	444	637	636	667	862
Interest on Borrowings	(1,261)	(14,466)	(770)	10,875	10,101
2011-12 Budget	**11,022**	**17,848**	**37,767**	**49,300**	**48,721**

Changes to Appropriation - Territorial

Capital Injections	2010-11 Est. Out. $'000	2011-12 Budget $'000	2012-13 Estimate $'000	2013-14 Estimate $'000	2014-15 Estimate $'000
2010-11 Budget	**214**	**214**	**214**	**214**	**214**
2011-12 Budget	**214**	**214**	**214**	**214**	**214**

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

2010-11 Budget $'000		2010-11 Est.Outcome $'000	2011-12 Budget $'000	Var %	2012-13 Estimate $'000	2013-14 Estimate $'000	2014-15 Estimate $'000
	Income						
	Revenue						
11,839	Payment for Expenses on behalf of Territory	11,022	17,848	62	37,767	49,300	48,721
107,713	Interest	119,600	123,537	3	125,573	130,756	140,840
123,526	Other Revenue	143,350	139,537	-3	119,907	110,625	105,303
3,230,322	Transfer Revenue	3,340,337	3,594,485	8	3,570,090	3,791,581	4,002,874
3,473,400	**Total Revenue**	**3,614,309**	**3,875,407**	**7**	**3,853,337**	**4,082,262**	**4,297,738**
	Gains						
0	**Total Gains**	**0**	**0**	**-**	**0**	**0**	**0**
3,473,400	**Total Income**	**3,614,309**	**3,875,407**	**7**	**3,853,337**	**4,082,262**	**4,297,738**
	Expenses						
101,011	Borrowing Costs	109,614	122,991	12	143,395	157,625	159,878
362	Other Expenses	3,226	814	-75	684	329	329
3,886,261	Transfer Expenses	3,818,723	4,181,584	10	3,967,796	3,734,880	3,870,696
3,987,634	**Total Ordinary Expenses**	**3,931,563**	**4,305,389**	**10**	**4,111,875**	**3,892,834**	**4,030,903**
-514,234	**Operating Result**	**-317,254**	**-429,982**	**36**	**-258,538**	**189,428**	**266,835**
-1	Inc/Dec in Asset Revaluation Reserve Surpluses	990	-3	-100	1	1,516	1
-1	**Total Other Comprehensive Income**	**990**	**-3**	**-100**	**1**	**1,516**	**1**
-514,235	**Total Comprehensive Income**	**-316,264**	**-429,985**	**-36**	**-258,537**	**190,944**	**266,836**

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

Budget as at 30/6/11 $'000		Est.Outcome as at 30/6/11 $'000	Planned as at 30/6/12 $'000	Var %	Planned as at 30/6/13 $'000	Planned as at 30/6/14 $'000	Planned as at 30/6/15 $'000
	Current Assets						
5,000	Cash and Cash Equivalents	0	0	-	0	0	0
360,708	Receivables	389,743	381,087	-2	412,362	496,294	548,728
428,639	Investments	828,276	453,919	-45	484,170	637,611	902,986
1,476	Other	3,180	3,180	-	3,180	3,180	3,180
795,823	**Total Current Assets**	**1,221,199**	**838,186**	**-31**	**899,712**	**1,137,085**	**1,454,894**
	Non Current Assets						
1,306,109	Receivables	1,181,908	1,404,068	19	1,394,251	1,432,735	1,419,478
158,653	Investments	168,488	156,085	-7	152,739	149,119	145,528
1,464,762	**Total Non Current Assets**	**1,350,396**	**1,560,153**	**16**	**1,546,990**	**1,581,854**	**1,565,006**
2,260,585	**TOTAL ASSETS**	**2,571,595**	**2,398,339**	**-7**	**2,446,702**	**2,718,939**	**3,019,900**
	Current Liabilities						
4,061	Payables	7,399	7,399	-	7,399	7,399	7,399
580,897	Interest Bearing Liabilities	869,835	602,498	-31	617,285	660,193	706,077
584,958	**Total Current Liabilities**	**877,234**	**609,897**	**-30**	**624,684**	**667,592**	**713,476**
	Non Current Liabilities						
1,632,354	Interest Bearing Liabilities	1,307,794	1,819,362	39	2,108,407	2,145,229	2,130,384
1,632	Other	1,515	1,515	-	1,515	0	0
1,633,986	**Total Non Current Liabilities**	**1,309,309**	**1,820,877**	**39**	**2,109,922**	**2,145,229**	**2,130,384**
2,218,944	**TOTAL LIABILITIES**	**2,186,543**	**2,430,774**	**11**	**2,734,606**	**2,812,821**	**2,843,860**
41,641	**NET ASSETS**	**385,052**	**-32,435**	**-108**	**-287,904**	**-93,882**	**176,040**
	REPRESENTED BY FUNDS EMPLOYED						
43,343	Accumulated Funds	386,639	-30,845	-108	-286,315	-93,809	176,112
-1,702	Reserves	-1,587	-1,590	..	-1,589	-73	-72
41,641	**TOTAL FUNDS EMPLOYED**	**385,052**	**-32,435**	**-108**	**-287,904**	**-93,882**	**176,040**

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

2010-11 Budget $'000		2010-11 Est.Outcome $'000	2011-12 Budget $'000	Var %	2012-13 Estimate $'000	2013-14 Estimate $'000	2014-15 Estimate $'000
	CASH FLOWS FROM OPERATING ACTIVITIES						
	Receipts						
11,839	Cash from Government for EBT	11,022	17,848	62	37,767	49,300	48,721
99,489	Interest Received	124,900	117,215	-6	118,937	124,016	134,098
123,917	Other Revenue	128,889	138,576	8	118,833	109,460	104,016
3,232,817	Territory Receipts transferred from Agencies	3,370,017	3,547,341	5	3,555,167	3,725,574	3,969,115
3,468,062	**Operating Receipts**	**3,634,828**	**3,820,980**	**5**	**3,830,704**	**4,008,350**	**4,255,950**
	Payments						
92,889	Borrowing Costs	104,061	116,698	12	136,778	150,886	152,626
32	Other	121	450	272	385	37	30
53,812	Payments to PTE Agencies for Outputs	53,812	53,575	..	53,449	52,451	53,293
2,314,013	Payments to GGS Agencies for Outputs	2,297,854	2,477,667	8	2,482,319	2,540,468	2,639,495
513,985	Payments to Agencies for EBT	514,542	506,118	-2	579,815	626,640	671,754
2,974,731	**Operating Payments**	**2,970,390**	**3,154,508**	**6**	**3,252,746**	**3,370,482**	**3,517,198**
493,331	**NET CASH INFLOW/ (OUTFLOW) FROM OPERATING ACTIVITIES**	**664,438**	**666,472**	**..**	**577,958**	**637,868**	**738,752**
	CASH FLOWS FROM INVESTING ACTIVITIES						
	Receipts						
621,293	Proceeds from Sale/Maturities of Investments	433,005	386,763	-11	0	0	1
19,307	Repayment of Advance	19,018	87,836	362	18,088	19,783	21,298
0	Other	5,450	1,739	-68	23,314	37,521	49,036
2,473	Capital Distributions from Government Agencies	5,846	12,136	108	2,706	2,716	2,724
643,073	**Investing Receipts**	**463,319**	**488,474**	**5**	**44,108**	**60,020**	**73,059**
	Payments						
0	Purchase of Investments	0	0	-	26,909	149,819	261,785
350,000	Advances Issued to Government Agencies	310,000	230,350	-26	0	50,000	0
1,021,798	Capital Payments to Government Agencies	969,940	1,157,431	19	865,954	530,739	522,289
295,485	Other Payments	28,821	209,099	626	13,518	0	8,640
1,667,283	**Investing Payments**	**1,308,761**	**1,596,880**	**22**	**906,381**	**730,558**	**792,714**
-1,024,210	**NET CASH INFLOW/ (OUTFLOW) FROM INVESTING ACTIVITIES**	**-845,442**	**-1,108,406**	**-31**	**-862,273**	**-670,538**	**-719,655**

Territory Banking Account

Budgeted Statement of Cash Flows on Behalf of the Territory cont.

2010-11 Budget $'000		2010-11 Est.Outcome $'000	2011-12 Budget $'000	Var %	2012-13 Estimate $'000	2013-14 Estimate $'000	2014-15 Estimate $'000
	CASH FLOWS FROM FINANCING ACTIVITIES						
	Receipts						
214	Capital Injection from Government	214	214	-	214	214	214
531,219	Borrowings Received	281,445	442,274	57	284,655	33,010	0
531,433	**Financing Receipts**	**281,659**	**442,488**	**57**	**284,869**	**33,224**	**214**
	Payments						
554	Repayment of Borrowings	554	554	-	554	554	19,311
554	**Financing Payments**	**554**	**554**	**-**	**554**	**554**	**19,311**
530,879	**NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES**	**281,105**	**441,934**	**57**	**284,315**	**32,670**	**-19,097**
0	**NET INCREASE/ (DECREASE) IN CASH HELD**	**100,101**	**0**	**-100**	**0**	**0**	**0**
5,000	**CASH AT BEGINNING OF REPORTING PERIOD**	**-100,101**	**0**	**100**	**0**	**0**	**0**
5,000	**CASH AT THE END OF THE REPORTING PERIOD**	**0**	**0**	**-**	**0**	**0**	**0**

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

Budget as at 30/6/11 $'000		Est.Outcome as at 30/6/11 $'000	Planned as at 30/6/12 $'000	Var %	Planned as at 30/6/13 $'000	Planned as at 30/6/14 $'000	Planned as at 30/6/15 $'000
	Opening Equity						
554,742	Opening Accumulated Funds	697,685	386,639	-45	-30,845	-286,315	-93,809
-1,701	Opening Other Reserve	-2,577	-1,587	38	-1,590	-1,589	-73
553,041	**Balance at the Start of the Reporting Period**	**695,108**	**385,052**	**-45**	**-32,435**	**-287,904**	**-93,882**
	Comprehensive Income						
-514,234	Operating Result for the Period	-317,254	-429,982	-36	-258,538	189,428	266,835
-1	Increase/(Decrease) in Asset Revaluation Reserve Surpluses	990	-3	-100	1	1,516	1
-514,235	**Total Comprehensive Income**	**-316,264**	**-429,985**	**36**	**-258,537**	**190,944**	**266,836**
1	Movement in Asset Revaluation Reserves	-990	3	100	-1	-1,516	-1
-1	Other Reserves	990	-3	-100	1	1,516	1
0	**Total Movement In Reserves**	**0**	**0**	**-**	**0**	**0**	**0**
	Transactions Involving Owners Affecting Accumulated Funds						
214	Capital Injections	214	214	-	214	214	214
2,621	Capital Distributions	5,994	12,284	105	2,854	2,864	2,872
2,835	**Total Transactions Involving Owners Affecting Accumulated Funds**	**6,208**	**12,498**	**101**	**3,068**	**3,078**	**3,086**
	Closing Equity						
43,343	Closing Accumulated Funds	386,639	-30,845	-108	-286,315	-93,809	176,112
-1,702	Closing Other Reserve	-1,587	-1,590	..	-1,589	-73	-72
41,641	**Balance at the End of the Reporting Period**	**385,052**	**-32,435**	**-108**	**-287,904**	**-93,882**	**176,040**

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 the level of outstanding borrowings; and

- – variances reflect the difference between budgeted interest rates and actual interest rates and the timing and amount of new borrowing transactions.

- interest: represents investment interest returns received from banks and investment managers and interest paid by agencies for loans provided from the TBA:
  - – the net increase of $11.887 million in the 2010-11 estimated outcome from the original budget is due mainly to higher investment returns than originally anticipated and higher investment balances during the year; and
  - – the net increase of $3.937 million in the 2011-12 Budget from the 2010-11 estimated outcome comprises a decrease in investment earnings due to a lower level of funds to be held on investment during the year ($16.982 million), and a net increase in loan interest mainly due to new ACTEW Corporation borrowings ($19.071 million).

- other revenue: represents market gains from investments and notional CSS and PSS employer superannuation contributions from agencies:
  - – the net increase of $19.824 million in the 2010-11 estimated outcome from the original budget comprises capital gains from investments ($14.504 million) and higher than expected employer superannuation contributions ($5.320 million); and
  - – the net decrease of $3.813 million in the 2011-12 Budget from the 2010-11 estimated outcome reflects a return to normal investment returns for the investment portfolio with no capital gains estimated, a reduction in agency employer superannuation contributions ($3.010 million) and the repayment of the balance of loan monies from the Default Insurance Fund provided in relation to the collapse of HIH Insurance in 2001 ($13.7 million).

- 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 $8.603 million in the 2010-11 estimated outcome from the original budget mainly reflects higher payments of investment interest to agencies than originally anticipated due to higher investment returns on funds under investment ($17.160 million), partially offset by lower borrowing interest costs due to no requirement for new general government borrowings in 2010-11 and the timing of new ACTEW borrowings ($8.557 million); and
  - – the net increase of $13.377 million in the 2011-12 Budget from the 2010-11 estimated outcome is mainly due to increased interest payments for borrowings undertaken on behalf of ACTEW Corporation and the general government ($25.134 million), partially offset by lower payments of investment interest to agencies due to lower balances of funds under investment and lower investment returns than those achieved in 2010-11 ($11.687 million).

- other expenses: represents investment and borrowing fees and unrealised investment capital losses:
  - – the increase of $2.864 million in the 2010-11 estimated outcome from the original budget is due to unrealised investment capital losses ($2.327 million) and investment management fees from higher balances of funds under investment ($0.537 million); and

- – the decrease of $2.412 million in the 2011-12 Budget from the 2010-11 estimated outcome reflects a return to normal investment returns for the investment portfolio with no capital losses estimated.
- 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 $5 million in the 2010-11 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 $95.166 million in the 2010-11 estimated outcome from the original budget is mainly due to a decrease in loans receivable from PTE's ($127.479 million) due to a lower 2009-10 borrowing requirement for ACTEW Corporation ($250 million face value compared with the original budget of $330 million) and the LDA not requiring to draw on the $40.000 million loan facility available to it, partially offset by an increase in trade debtors receivable from agencies ($33.755 million); and
  - the increase of $213.504 million in the 2011-12 Budget from the 2010-11 estimated outcome is mainly due to an increase in trade debtors receivable from agencies ($61.946 million), and an increase in loans receivable from ACTEW Corporation ($105.508 million) and Treasury in relation to financing provided in the form of repayable capital injections (Community Housing Canberra $20 million and University of Canberra $23.350 million).
- current and non current investments:
  - the increase of $409.472 million in the 2010-11 estimated outcome from the original budget is due to net higher than expected levels of investment, comprising of TBA ($107.386 million), the cash investments of the Superannuation Provision Account which are invested through the TBA ($216.293 million) and agencies ($85.793 million); and
  - the decrease of $386.760 million in the 2011-12 Budget from the 2010-11 estimated outcome predominantly reflects a reduction in the cash investments of the Superannuation Provision Account as they are reallocated to other asset classes and a reduction in the cash investments of the TBA to meet funding commitments.
- payables: represents accrued interest payable on borrowings at balance date.
- current and non current interest bearing liabilities: comprises agencies' investment deposits with the TBA and external market borrowings. The 2010-11 estimated outcome comprises $1,419.096 million external borrowings and $758.533 million agency investments. The 2011-12 Budget comprises $1,870.687 million external borrowings and $551.173 million agency investments.
- 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.

Statement of Changes in Equity on behalf of the Territory

Variances in the statement are explained in the notes above.