

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.

2009-10 Priorities

Strategic and operational issues to be pursued in 2009-10 include:

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

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 Budget	2008-09 Est. Outcome	2009-10 Budget
- Staffing (FTE) ¹	-	-

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		Government Payment for Outputs	
	2008-09	2009-10	2008-09	2009-10
	Est. Outcome \$'000	Budget \$'000	Est. Outcome \$'000	Budget \$'000
EBT 1: Territory Banking Account	3,228,178	3,775,434	11,709	10,671
Output EBT 1: Territory Banking Account	3,228,178	3,775,434	11,709	10,671

Description

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

The key outputs to be delivered in 2009-10 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

	2008-09 Targets	2008-09 Est. Outcome	2009-10 Targets
1.1: Territory Banking Account			
a. Ratio of investment earnings rate divided by the established benchmark ¹	≥ 1	0.85	n/a
b. Exposure of debt portfolio to floating interest rates	< 30%	18%	< 30%
c. Modified duration of debt portfolio ¹	between 2.5 and 3.5 years	2.0 years	n/a
d. Difference between the net investment earnings rate and the benchmark is to be ≥ 0 ²	n/a	n/a	≥ 0

Notes:

1. Discontinued measure.
2. New measure.

Changes to Appropriation

Changes to Appropriation - Territorial					
Payment for Expenses on Behalf of Territory	2008-09 Est. Out. \$'000	2009-10 Budget \$'000	2010-11 Estimate \$'000	2011-12 Estimate \$'000	2012-13 Estimate \$'000
2008-09 Budget	12,860	13,004	13,886	13,859	13,859
2009-10 Budget Technical Adjustments					
Interest Rate Adjustments	(1,151)	(2,333)	(4,780)	(4,780)	(4,807)
Interest on New Borrowings	-	-	1,833	22,000	22,000
2009-10 Budget	11,709	10,671	10,939	31,079	31,052

Changes to Appropriation - Territorial					
Capital Injections	2008-09 Est. Out. \$'000	2009-10 Budget \$'000	2010-11 Estimate \$'000	2011-12 Estimate \$'000	2012-13 Estimate \$'000
2008-09 Budget	214	214	214	214	214
2009-10 Budget	214	214	214	214	214

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

2008-09 Budget \$'000		2008-09 Est. Outcome \$'000	2009-10 Budget \$'000	Var %	2010-11 Estimate \$'000	2011-12 Estimate \$'000	2012-13 Estimate \$'000
Income							
Revenue							
12,860	Payment for Expenses on behalf of Territory	11,709	10,671	-9	10,940	31,079	31,052
145,614	Interest	126,793	89,493	-29	79,826	84,270	84,812
118,251	Other Revenue	125,582	120,134	-4	110,013	101,377	94,808
3,056,900	Transfer Revenue	2,836,183	3,095,043	9	3,197,547	3,307,495	3,488,419
3,333,625	Total Revenue	3,100,267	3,315,341	7	3,398,326	3,524,221	3,699,091
Gains							
0	Total Gains	0	0	-	0	0	0
3,333,625	Total Income	3,100,267	3,315,341	7	3,398,326	3,524,221	3,699,091
Expenses							
87,116	Borrowing Costs	92,136	77,119	-16	80,036	101,549	101,230
815	Other Expenses	1,072	855	-20	465	549	597
3,214,231	Transfer Expenses	3,134,970	3,697,460	18	3,715,109	3,411,722	3,451,657
3,302,162	Total Ordinary Expenses	3,228,178	3,775,434	17	3,795,610	3,513,820	3,553,484
31,463	Operating Result	-127,911	-460,093	-260	-397,284	10,401	145,607

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

Budget as at 30/6/09 \$'000		Est.Outcome as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000	Var %	Planned as at 30/6/11 \$'000	Planned as at 30/6/12 \$'000	Planned as at 30/6/13 \$'000
Current Assets							
5,012	Cash and Cash Equivalents	578	684	18	766	676	673
190,944	Receivables	305,565	301,075	-1	324,003	293,362	332,095
842,754	Investments	1,145,179	412,354	-64	421,834	400,197	538,409
2,887	Other	2,149	2,149	-	2,149	2,149	2,149
1,041,597	Total Current Assets	1,453,471	716,262	-51	748,752	696,384	873,326
Non Current Assets							
959,724	Receivables	771,536	1,032,740	34	1,127,238	1,138,393	1,126,087
182,438	Investments	246,785	190,285	-23	186,024	181,333	176,490
1,014	Property, Plant and Equipment	0	0	-	0	0	0
5,292	Other	0	0	-	0	0	0
1,148,468	Total Non Current Assets	1,018,321	1,223,025	20	1,313,262	1,319,726	1,302,577
2,190,065	TOTAL ASSETS	2,471,792	1,939,287	-22	2,062,014	2,016,110	2,175,903
Current Liabilities							
5,641	Payables	7,709	7,709	-	7,709	7,709	7,709
214,943	Interest Bearing Liabilities	773,668	467,878	-40	905,742	935,544	967,803
1,014	Finance Leases	0	0	-	0	0	0

4,162	Other Provisions	3,324	0	-100	0	0	0
225,760	Total Current Liabilities	784,701	475,587	-39	913,451	943,253	975,512
Non Current Liabilities							
1,182,280	Interest Bearing Liabilities	990,959	1,220,606	23	1,300,653	1,212,160	1,191,637
0	Other	9,504	9,504	-	9,504	9,504	9,504
1,182,280	Total Non Current Liabilities	1,000,463	1,230,110	23	1,310,157	1,221,664	1,201,141
1,408,040	TOTAL LIABILITIES	1,785,164	1,705,697	-4	2,223,608	2,164,917	2,176,653
782,025	NET ASSETS	686,628	233,590	-66	-161,594	-148,807	-750
REPRESENTED BY FUNDS EMPLOYED							
776,770	Accumulated Funds	696,169	243,128	-65	-152,055	-139,265	8,791
5,255	Reserves	-9,541	-9,538	..	-9,539	-9,542	-9,541
782,025	TOTAL FUNDS EMPLOYED	686,628	233,590	-66	-161,594	-148,807	-750

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

2008-09 Budget		2008-09 Est. Outcome \$'000	2009-10 Budget \$'000	Var	2010-11 Estimate \$'000	2011-12 Estimate \$'000	2012-13 Estimate \$'000
\$'000				%			
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts							
12,860	Cash from Government for EBT	11,709	10,671	-9	10,939	31,079	31,052
144,960	Interest Received	125,825	88,640	-30	79,359	83,718	84,216
124,860	Other Revenue	127,913	125,115	-2	109,771	101,136	94,567
3,080,911	Territory Receipts transferred from Agencies	2,831,618	3,114,460	10	3,190,691	3,282,673	3,468,115
3,363,591	Operating Receipts	3,097,065	3,338,886	8	3,390,760	3,498,606	3,677,950
Payments							
87,056	Borrowing Costs	92,587	78,307	-15	80,100	101,597	101,256
74	Other	97	75	-23	37	44	46
33,212	Payments to PTE Agencies for Outputs	36,324	56,709	56	53,902	53,768	53,723
2,039,103	Payments to GGS Agencies for Outputs	2,048,876	2,147,324	5	2,177,256	2,259,900	2,350,324
452,599	Payments to Agencies for EBT	469,246	526,476	12	560,259	599,926	630,122
2,612,044	Operating Payments	2,647,130	2,808,891	6	2,871,554	3,015,235	3,135,471
751,547	NET CASH INFLOW/ (OUTFLOW) FROM OPERATING ACTIVITIES	449,935	529,995	18	519,206	483,371	542,479
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
222,335	Proceeds from Sale/Maturities of Investments	113,410	789,323	596	1	26,329	1
21,975	Repayment of Advance	35,616	16,734	-53	16,796	85,502	10,395
153	Other	137,737	0	-100	34,935	26,812	25,538
1,755	Capital Distributions from Government Agencies	4,226	3,366	-20	1,739	2,027	2,087
246,218	Investing Receipts	290,989	809,423	178	53,471	140,670	38,021
Payments							
0	Purchase of Investments	0	0	-	5,216	0	133,369
313,000	Advances Issued to Government Agencies	242,270	278,000	15	110,000	25,000	0
702,225	Capital Payments to Government Agencies	592,475	985,382	66	940,569	513,843	433,547
242,270	Other Payments	69,867	310,840	345	0	0	0
1,257,495	Investing Payments	904,612	1,574,222	74	1,055,785	538,843	566,916
-1,011,277	NET CASH INFLOW/ (OUTFLOW) FROM INVESTING ACTIVITIES	-613,623	-764,799	25	-1,002,314	-398,173	-528,895
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
214	Capital Injection from Government	214	214	-	214	214	214
260,139	Borrowings Received	192,539	235,251	22	483,530	0	0
260,353	Financing Receipts	192,753	235,465	22	483,744	214	214
Payments							
554	Repayment of Borrowings	554	555	-	554	85,502	13,801
554	Financing Payments	554	555	-	554	85,502	13,801
259,799	NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES	192,199	234,910	22	483,190	-85,288	-13,587
69	NET INCREASE/ (DECREASE) IN CASH HELD	28,511	106	-100	82	-90	-3
4,943	CASH AT BEGINNING OF REPORTING PERIOD	-27,933	578	102	684	766	676

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

Budget as at 30/6/09 \$'000		Est.Outcome as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000	Var %	Planned as at 30/6/11 \$'000	Planned as at 30/6/12 \$'000	Planned as at 30/6/13 \$'000
748,590	Opening Balance	811,607	686,628	-15	233,590	-161,594	-148,807
	Accumulated Funds						
0	Prior Year Adjustments	14,899	0	-100	0	0	0
31,463	Operating Result for the Period	-127,911	-460,093	260	-397,284	10,401	145,607
	Reserves						
2	Increase/(Decrease) in other reserves	-16,408	3	100	-1	-3	1
31,465	Total Income And Expense For The Period	-129,420	-460,090	256	-397,285	10,398	145,608
	Transactions Involving Equity Holders Affecting Accumulated Funds						
214	Capital Injections	214	214	-	214	214	214
1,756	Capital Distributions	4,227	3,514	-17	1,887	2,175	2,235
0	Inc/Dec in Net Assets due to Admin Restructure	0	3,324	-	0	0	0
782,025	Closing Balance	686,628	233,590	-66	-161,594	-148,807	-750

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 decrease of \$18.821 million in the 2008-09 estimated outcome from the original budget is due mainly to lower returns as a result of the reduction in interest rates during the year; and

- the decrease of \$37.3 million in the 2009-10 Budget from the 2008-09 estimated outcome comprises a decrease in investment earnings due to a lower level of funds to be held on investment during the year at continuing low interest rates (\$45.723 million), and a net increase in loan interest mainly due to new ACTEW Corporation borrowings (\$9.790 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 net increase of \$5.020 million in the 2008-09 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 (\$8.950 million), offset by lower interest costs on borrowings due to lower variable interest rates (\$3.930 million); and
 - the net decrease of \$15.017 million in the 2009-10 Budget from the 2008-09 estimated outcome is mainly due to lower payments of investment interest to agencies due to lower balances of funds under investment (\$24.477 million), offset by increased interest payments for borrowings undertaken on behalf of ACTEW Corporation (\$9.529 million).
- other expenses: represents investment related management fees for the investments managed through the TBA. The increase of \$0.257 million in the 2008-09 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 \$4.434 million in the 2008-09 estimated outcome from the original budget is mainly due to allocating the majority of cash to investment.
- current and non current receivables: the decrease of \$73.569 million in the 2008-09 estimated outcome from the original budget and the increase of \$256.713 million in the 2009-10 Budget from the 2008-09 estimated outcome is mainly due to reprofiling of ACTEW Corporation's loans from the Territory. The 2008-09 requirement will be \$200 million compared with the original budget of \$275 million and the 2009-10 requirement will be \$250 million.

- current and non current investments:
 - the increase of \$366.772 million in the 2008-09 estimated outcome from the original budget is due to higher than expected levels of investments within the TBA, with the main contributor to the variance being the cash investments of the Superannuation Provision Account which are invested through the TBA (\$325.213 million).
 - the decrease of \$789.325 million in the 2009-10 Budget from the 2008-09 estimated outcome predominantly reflects a reduction in the cash investments of the Superannuation Provision Account as they are reallocated to other asset classes (\$326.878 million) and a reduction in the cash investments of the TBA to meet funding commitments (\$478.483 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 of \$1.014 million in the 2008-09 estimated outcome from the original budget reflects the expiry of outstanding leases and subsequent sale of vehicles.
- other non current assets: represents the fair value of the interest rate swaps transacted to manage the interest rate risk and duration of the general government component of the borrowing portfolio. The decrease of \$5.292 million in the 2008-09 estimated outcome from the original budget reflects the impact on the fair value of the interest rates swaps as a result of the fall in interest rates during the 2008-09 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 2008-09 estimated outcome comprises \$1,002.880 million external borrowings and \$761.748 million agency investments. The 2009-10 Budget comprises \$1,237.576 million external borrowings and \$450.908 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 reduced as leases expire and vehicles are sold. The decrease of \$1.014 million in the 2008-09 estimated outcome from the original budget reflects the expiry of outstanding leases and subsequent sale of vehicles.
- current other provisions: represents the balance of the 'Residual Management Reserve Account' for the Fleet Financing Facility with Macquarie Bank. The Reserve Account reflects the accumulated shortfall of net sale proceeds against agreed residual values since the facility has been in place. The estimated deficit balance position that the Territory will be required to pay to discharge this liability in 2009-10 is \$3.324 million.
- 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 2008-09 estimated outcome reflects the fair value of the interest rates swaps.

Statement of Changes in Equity

Variations in the statement are explained in the notes above.

