

TERRITORY BANKING ACCOUNT

Objectives

An objective of the Territory Banking Account (TBA) 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.

The TBA 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 Superannuation Provision Unit (SPA) is also responsible for the administration of the Government's debt portfolio and the management of the Territory's debt servicing liabilities.

The TBA 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 TBA, recognises and manages the general government's debt liability. Revenues on behalf of the Territory are transferred to the TBA and fortnightly appropriation disbursements are made to agencies from the TBA. The TBA operates within the boarder Treasury Portfolio.

2007-08 Priorities

Strategic and operational issues to be pursued in 2007-08 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
- implementation of the Government's agreed recommendations arising out of the *Review of the Application of Environmental, Social and Governance Issues to Territory Investment Practices*.

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 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

	2006-07 Est. Outcome	2007-08 Budget
Staffing (FTE)¹	-	-

Note:

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

Output Class

	Total Cost		Expenses on Behalf of the Territory	
	2006-07 Est. Outcome \$'000	2007-08 Budget \$'000	2006-07 Est. Outcome \$'000	2007-08 Budget \$'000
EBT 1: Territory Banking Account	2,622,718	3,006,153	12,139	12,288
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Description

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

The key outputs to be delivered in 2007-08 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 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 year.

Accountability Indicators

	2006-07 Targets	2006-07 Est. Outcome	2007-08 Targets
1.1: Territory Banking Account			
a. Ratio of investment earnings rate divided by the established benchmark	≥ 1	1.02	≥ 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	2.95 years	between 2.5 and 3.5 years

Changes to Appropriation

Changes to Appropriation - Territorial

	2006-07	2007-08	2008-09	2009-10	2010-11
Payment for Expenses on Behalf of Territory	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2006-07 Budget	11,943	11,916	11,888	11,862	11,862
2007-08 Budget Technical Adjustments					
Interest Rate Adjustment	196	372	379	451	603
2007-08 Budget	12,139	12,288	12,267	12,313	12,465

Changes to Appropriation - Territorial

	2006-07	2007-08	2008-2009	20098-2010	2010-2011
Capital Injections	Est. Out.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
2006-07 Budget	214	214	214	214	214
	-	-	-	-	-
2007-08 Budget	214	214	214	214	214

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

2006-07 Budget \$'000		2006-07 Est.Outcome \$'000	2007-08 Budget \$'000	Var %	2008-09 Estimate \$'000	2009-10 Estimate \$'000	2010-11 Estimate \$'000
Income							
Revenue							
11,943	Payment for Expenses on behalf of Territory	12,139	12,288	1	12,267	12,313	12,465
61,334	Interest	98,895	91,649	-7	90,733	101,862	115,935
167,789	Other Revenue	165,120	142,942	-13	136,654	130,111	123,162
2,347,478	Transfer Revenue	2,405,588	2,707,273	13	2,697,983	2,800,223	2,937,285
2,588,544	Total Revenue	2,681,742	2,954,152	10	2,937,637	3,044,509	3,188,847
Gains							
0	Total Gains	0	0	-	0	0	0
2,588,544	Total Income	2,681,742	2,954,152	10	2,937,637	3,044,509	3,188,847
Expenses							
56,130	Borrowing Costs	74,136	66,120	-11	63,471	66,976	69,369
323	Other Expenses	671	516	-23	409	470	604
2,719,854	Transfer Expenses	2,547,911	2,939,517	15	2,803,831	2,828,578	2,867,899
2,776,307	Total Ordinary Expenses	2,622,718	3,006,153	15	2,867,711	2,896,024	2,937,872
-187,763	Operating Result	59,024	-52,001	-188	69,926	148,485	250,975

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

Budget as at 30/6/07 \$'000		Est.Outcome as at 30/6/07 \$'000	Planned as at 30/6/08 \$'000	Var %	Planned as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000	Planned as at 30/6/11 \$'000
Current Assets							
287,812	Cash and Cash Equivalents	795,847	489,280	-39	521,192	645,420	862,754
153,558	Receivables	128,279	150,486	17	156,501	173,977	190,141
11,348	Other	300	300	-	300	300	300
452,718	Total Current Assets	924,426	640,066	-31	677,993	819,697	1,053,195
Non Current Assets							
387,826	Receivables	433,190	511,937	18	607,417	656,022	683,569
179,616	Investments	215,637	191,137	-11	191,666	190,528	188,275
11,461	Property, Plant and Equipment	12,575	3,832	-70	1,209	0	0
578,903	Total Non Current Assets	661,402	706,906	7	800,292	846,550	871,844
1,031,621	TOTAL ASSETS	1,585,828	1,346,972	-15	1,478,285	1,666,247	1,925,039
Current Liabilities							
10,153	Payables	6,962	6,963	..	6,962	6,964	6,964
182,092	Interest Bearing Liabilities	441,704	239,006	-46	248,191	252,763	253,699
11,462	Finance Leases	8,743	2,623	-70	1,209	0	0
0	Other Provisions	0	0	-	4,162	0	0
203,707	Total Current Liabilities	457,409	248,592	-46	260,524	259,727	260,663
Non Current Liabilities							
749,243	Interest Bearing Liabilities	736,006	754,948	3	808,245	842,914	848,228
0	Finance Leases	3,832	1,209	-68	0	0	0
0	Other Provisions	5,273	4,503	-15	0	0	0
749,243	Total Non Current Liabilities	745,111	760,660	2	808,245	842,914	848,228
952,950	TOTAL LIABILITIES	1,202,520	1,009,252	-16	1,068,769	1,102,641	1,108,891
78,671	NET ASSETS	383,308	337,720	-12	409,516	563,606	816,148
REPRESENTED BY FUNDS EMPLOYED							
78,671	Accumulated Funds	383,308	337,720	-12	409,516	563,606	816,148
78,671	TOTAL FUNDS EMPLOYED	383,308	337,720	-12	409,516	563,606	816,148

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

2006-07 Budget \$'000		2006-07 Est.Outcome \$'000	2007-08 Budget \$'000	Var %	2008-09 Estimate \$'000	2009-10 Estimate \$'000	2010-11 Estimate \$'000
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts							
11,943	Cash from Government for EBT	12,139	12,288	1	12,267	12,313	12,465
61,011	Interest Received	98,226	90,680	-8	90,777	101,387	115,326
172,808	Other Revenue	169,613	146,148	-14	142,325	128,705	121,842
2,331,103	Territory Receipts transferred from Agencies	2,389,205	2,707,286	13	2,688,636	2,796,642	2,934,590
2,576,865	Operating Receipts	2,669,183	2,956,402	11	2,934,005	3,039,047	3,184,223
Payments							
56,109	Borrowing Costs	74,954	66,035	-12	63,489	66,983	69,384
29	Other	62	43	-31	37	43	55
31,828	Payments to PTE Agencies for Outputs	31,489	32,343	3	32,828	33,341	33,876
1,808,714	Payments to GGS Agencies for Outputs	1,799,341	1,863,740	4	1,892,018	1,952,900	2,026,260
404,308	Payments to Agencies for EBT	359,728	429,739	19	476,898	517,400	544,831
2,300,988	Operating Payments	2,265,574	2,391,900	6	2,465,270	2,570,667	2,674,406
275,877	NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	403,609	564,502	40	468,735	468,380	509,817
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
51,318	Proceeds from Sale/Maturities of Investments	2,678	24,500	815	0	1,138	2,253
12,728	Repayment of Advance	10,675	20,955	96	30,309	20,518	19,397
0	Other	0	12,398	-	7,920	2,349	1,256
36,339	Capital Distributions from Government Agencies	36,977	6,525	-82	1,655	1,205	1,205
100,385	Investing Receipts	50,330	64,378	28	39,884	25,210	24,111
Payments							
0	Purchase of Investments	0	0	-	529	0	0
25,600	Advances Issued to Government Agencies	23,048	113,557	393	116,000	68,000	45,000
486,600	Capital Payments to Government Agencies	366,260	625,946	71	414,956	338,474	276,808
72,465	Repayment of Investments to Agencies (CFU only)	129,045	241,264	87	177	875	812
584,665	Investing Payments	518,353	980,767	89	531,662	407,349	322,620
-484,280	NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	-468,023	-916,389	-96	-491,778	-382,139	-298,509

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

2006-07 Budget \$'000		2006-07 Est.Outcome \$'000	2007-08 Budget \$'000	Var %	2008-09 Estimate \$'000	2009-10 Estimate \$'000	2010-11 Estimate \$'000
	CASH FLOWS FROM FINANCING ACTIVITIES						
	Receipts						
214	Capital Injection from Government	214	214	-	214	214	214
0	Borrowings Received	4,244	45,660	976	55,291	38,324	6,361
214	Financing Receipts	4,458	45,874	929	55,505	38,538	6,575
	Payments						
1,525	Repayment of Borrowings	554	554	-	554	554	554
1,525	Financing Payments	554	554	-	554	554	554
-1,311	NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	3,904	45,320	1,061	54,951	37,984	6,021
-209,714	NET INCREASE/(DECREASE) IN CASH HELD	-60,510	-306,567	407	31,908	124,225	217,329
497,529	CASH AT BEGINNING OF REPORTING PERIOD	856,321	795,811	-7	489,244	521,152	645,377
287,815	CASH AT THE END OF THE REPORTING PERIOD	795,811	489,244	-39	521,152	645,377	862,706

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

Budget as at 30/6/07 \$'000		Est.Outcome as at 30/6/07 \$'000	Planned as at 30/6/08 \$'000	Var %	Planned as at 30/6/09 \$'000	Planned as at 30/6/10 \$'000	Planned as at 30/6/11 \$'000
230,158	Opening Balance	281,058	383,308	36	337,720	409,516	563,606
	Accumulated Funds						
0	Net Effect of a Correction of an Error	6,312	0	-100	0	0	0
-187,763	Operating Result for the Period	59,024	-52,001	-188	69,926	148,485	250,975
	Reserves						
-187,763	Total Income And Expense For The Period	65,336	-52,001	-180	69,926	148,485	250,975
	Transactions Involving Equity Holders Affecting Accumulated Funds						
214	Capital Injections	214	214	-	214	214	214
36,062	Capital (Distributions)	36,700	6,199	-83	1,656	1,353	1,353
0	Inc/Dec in Net Assets due to Admin Restructure	0	0	-	0	4,038	0
78,671	Closing Balance	383,308	337,720	-12	409,516	563,606	816,148

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 increase of \$37.561 million in the 2006-07 estimated outcome from the original budget is due mainly to higher balances of funds under investment; and
 - the decrease of \$7.246 million in the 2007-08 Budget from the 2006-07 estimated outcome comprises a reduction in investment earnings due to a lower level of funds to be held on investment during the year (\$6.754 million), and a net decrease in loan interest (\$0.492 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 \$18.006 million in the 2006-07 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 \$8.016 million in the 2007-08 Budget from the 2006-07 estimated outcome reflects lower anticipated payments of investment interest to agencies.
- other expenses: represents investment related management fees for the investments managed through the TBA:
 - the increase of \$0.348 million in the 2006-07 estimated outcome from the original budget is largely 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; and
 - the decrease of \$0.155 million in the 2007-08 Budget from the 2006-07 estimated outcome is due to lower balances of funds under investment.
- 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 and non-current receivables:
 - the increase of \$20.085 million in the 2006-07 estimated outcome from the original budget is mainly due to increased transfer revenue accrued; and
 - the increase of \$100.954 million in the 2007-08 Budget from the 2006-07 estimated outcome is due largely to new loans provided to the Land Development Agency (\$37.057 million) and Department of Treasury (\$12 million) and ACTEW Corporation (\$60 million), partially offset by loan repayments.
- current and non current investments: represents the total of all agency and the TBA funds held on investment.
- 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 2006-07 estimated outcome comprises \$588.783 million external borrowings and \$588.927 million agency investments. The 2007-08 Budget comprises \$633.887 million external borrowings and \$360.067 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 mainly 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 amount the Territory will be required to pay to discharge this liability.

