

## **CENTRAL FINANCING UNIT**

---

### **Objectives**

The Central Financing Unit (CFU) manages the central finances of the Territory through the Territory Banking Account. CFU provides services to the Government that include financial asset and liability management through the establishment of investment and borrowing policies and objectives, and the coordination of investment and borrowing activities.

CFU manages the surplus cash balances of the Government and invests funds through external managers within known cash flow requirements and established investment policies. CFU is also responsible for the administration of the Government's debt portfolio and the management of the Territory's debt servicing liabilities, including overseeing the Territory's motor vehicle financing facility and overseeing the Territory's transactional banking arrangements.

The objective of the CFU is to effectively manage the capital markets 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.

CFU, through the Territory Banking Account, recognises and manages the general government's debt liability. Revenues on behalf of the Territory are transferred to the Territory Banking Account and fortnightly appropriation disbursements are made to agencies from the Territory Banking Account.

CFU utilises the services of a Finance and Investment Advisory Board which has been established to provide advice in respect of the assets and liabilities of the Territory that are managed through the CFU.

### **2005-06 Highlights**

Strategic and operational issues to be pursued in 2005-06 include:

- refinancing of the maturing \$52m Inscribed Stock borrowing consistent with the Territory's debt management strategy;
- reviewing options for realigning the total general government debt portfolio with the debt management benchmark and implementing the preferred option;
- procuring the services of a specialist debt liability risk management adviser when the incumbent adviser's contract term expires; and
- providing recommendations to Government outlining the financing options for the motor vehicle fleet when the current financing facility expires.

## Output Classes

	Total Cost		Expenses on Behalf of the Territory	
	2004-05	2005-06	2004-05	2005-06
	Est. Outcome \$'000	Budget \$'000	Est. Outcome \$'000	Budget \$'000
<b>EBT</b>				
<b>Central Financing Unit</b>	2 396 953	2 662 930	11 331	12 939
<b>EBT 1 Central Financing Unit</b>	2 396 953	2 662 930	11 331	12 939

### Output Description

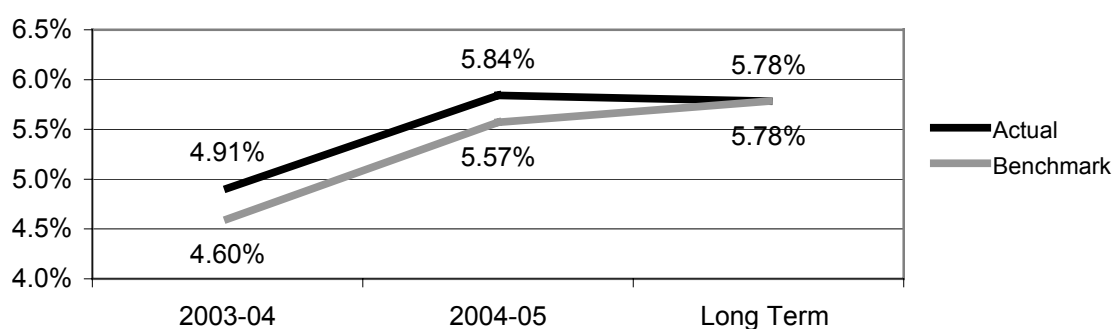
Management of the investment and borrowing activities of the Central Financing Unit will provide for:

- investment management – maximise the returns on investments within acceptable risk tolerances.
- borrowing management – achieve competitive borrowing rates commensurate with the ACT Government's credit rating.
- risk management – develop and maintain effective financial risk management strategies.

## Strategic Indicators

### Strategic Indicator 1 Investment returns exceeding benchmark

#### Investment Performance Against Benchmark



Investment performance is measured against a standard market benchmark to ensure that the performance reflects the underlying investment policies and objectives. The conservative policy for general government investments is such that returns equal to or marginally in excess of benchmark are expected.

## Accountability Indicators

	2004-05 Targets	2004-05 Est. Outcome	2005-06 Target
<b>1.1 Central Financing Unit</b>			
a. Ratio of investment earnings rate divided by the established benchmark	≥ 1	≥ 1	≥ 1
Ratio of average investment earnings rate divided by the established benchmark is a measure of whether investments have outperformed established benchmarks.			

## Budgeted Financial Targets

Section 31 of the *Financial Management Act 1996* (FMA) advises that Chief Executives are responsible for achievement of financial results. For the purpose of Section 31 of the FMA, key budgeted results are specified in the Budget Papers to improve accountability. An outcome of the increased accountability will be the requirement for Chief Executives to explain material variances from specified budgeted results.

In accordance with Section 31 of the FMA, following are the key budgeted results for the Central Financing Unit in 2005-06:

- **Returns on Investments** - maintaining an investment strategy supported by an underlying investment configuration that will deliver investment returns exceeding the UBSWA Bank Bill Index plus 0.10% before fees for the Cash Enhanced Fund, and exceeding the UBSWA Composite All Maturities Bond Index before fees for the Fixed Interest Fund; and
- **Cost of Debt<sup>1</sup> (6.24%)** - this target focuses on the Department's strategy to minimise borrowing cost

<sup>1</sup> *Cost of Debt is the weighted average interest rate the Territory is paying on its borrowings managed by the Central Financing Unit.*

## Changes to Appropriation

### Changes to Appropriation - Territorial

	2004-05	2005-06	2006-07	2007-08	2008-09
Payment for Expenses on Behalf of Territory	Est. Outc.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2004-05 Budget</b>	<b>11 687</b>	<b>10 686</b>	<b>10 686</b>	<b>10 686</b>	<b>10 687</b>
<b>2005-06 Budget Technical Adjustments</b>					
Interest Rate Adjustment	-356	1 770	572	572	572
Transfer of Loan from the Department of Urban Services	0	483	456	429	403
<b>2005-06 Budget</b>	<b>11 331</b>	<b>12 939</b>	<b>11 714</b>	<b>11 688</b>	<b>11 662</b>

### Changes to Appropriation - Territorial

	2004-05	2005-06	2006-07	2007-08	2008-09
Capital Injections	Est. Outc.	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2004-05 Budget</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2005-06 Budget Technical Adjustments</b>					
Transfer of Loan from the Department of Urban Services	0	214	214	214	214
<b>2005-06 Budget</b>	<b>0</b>	<b>214</b>	<b>214</b>	<b>214</b>	<b>214</b>

**Central Financing Unit  
Statement of Income and Expenses on Behalf of the Territory**

2004-05 Budget \$'000		2004-05 Est.Outcome \$'000	2005-06 Budget \$'000	Var %	2006-07 Estimate \$'000	2007-08 Estimate \$'000	2008-09 Estimate \$'000
<b>Income</b>							
<b>Revenue</b>							
11 686	Payment for Expenses on behalf of Territory	11 331	12 939	14	11 714	11 688	11 662
70 372	Interest	73 521	64 139	-13	52 324	48 980	50 230
110 020	Other Revenue	107 232	105 550	-2	99 960	93 449	86 993
2 098 954	Transfer Revenue	2 121 305	2 226 075	5	2 309 299	2 449 258	2 553 710
<b>2 291 032</b>	<b>Total Revenue</b>	<b>2 313 389</b>	<b>2 408 703</b>	<b>4</b>	<b>2 473 297</b>	<b>2 603 375</b>	<b>2 702 595</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>2 291 032</b>	<b>Total Income</b>	<b>2 313 389</b>	<b>2 408 703</b>	<b>4</b>	<b>2 473 297</b>	<b>2 603 375</b>	<b>2 702 595</b>
<b>Expenses</b>							
56 885	Borrowing Costs	56 301	58 749	4	57 310	57 098	56 341
529	Other Expenses	516	4 209	716	227	211	248
2 367 506	Transfer Expenses	2 340 136	2 599 972	11	2 547 293	2 530 771	2 580 513
<b>2 424 920</b>	<b>Total Ordinary Expenses</b>	<b>2 396 953</b>	<b>2 662 930</b>	<b>11</b>	<b>2 604 830</b>	<b>2 588 080</b>	<b>2 637 102</b>
<b>-133 888</b>	<b>Operating Result</b>	<b>-83 564</b>	<b>-254 227</b>	<b>-204</b>	<b>-131 533</b>	<b>15 295</b>	<b>65 493</b>

**Central Financing Unit  
Statement of Assets and Liabilities on Behalf of the Territory**

Budget as at 30/6/05 \$'000		Est.Outcome as at 30/6/05 \$'000	Planned as at 30/6/06 \$'000	Var %	Planned as at 30/6/07 \$'000	Planned as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000
<b>Current Assets</b>							
16 845	Cash	4 166	6 079	46	6 416	7 171	7 352
68 634	Receivables	119 839	109 305	-9	107 391	105 310	101 733
527 024	Investments	584 531	298 749	-49	228 093	269 277	348 911
14 379	Other	12 874	12 875	..	12 875	12 875	12 875
<b>626 882</b>	<b>Total Current Assets</b>	<b>721 410</b>	<b>427 008</b>	<b>-41</b>	<b>354 775</b>	<b>394 633</b>	<b>470 871</b>
<b>Non Current Assets</b>							
369 947	Receivables	370 108	354 334	-4	341 109	326 018	308 933
139 654	Investments	217 224	236 355	9	190 457	170 956	173 019
27 949	Property, Plant and Equipment	28 244	28 244	-	28 244	28 244	28 244
<b>537 550</b>	<b>Total Non Current Assets</b>	<b>615 576</b>	<b>618 933</b>	<b>1</b>	<b>559 810</b>	<b>525 218</b>	<b>510 196</b>
<b>1 164 432</b>	<b>TOTAL ASSETS</b>	<b>1 336 986</b>	<b>1 045 941</b>	<b>-22</b>	<b>914 585</b>	<b>919 851</b>	<b>981 067</b>
<b>Current Liabilities</b>							
12 603	Payables	18 587	23 495	26	22 032	20 438	17 419
271 873	Interest Bearing Liabilities	271 050	214 842	-21	223 424	249 446	263 045
15 145	Finance Leases	11 517	11 517	-	11 517	11 517	11 517
<b>299 621</b>	<b>Total Current Liabilities</b>	<b>301 154</b>	<b>249 854</b>	<b>-17</b>	<b>256 973</b>	<b>281 401</b>	<b>291 981</b>
<b>Non Current Liabilities</b>							
644 748	Interest Bearing Liabilities	720 862	730 130	1	722 974	688 303	673 232
12 805	Finance Leases	16 727	16 727	-	16 727	16 727	16 727
<b>657 553</b>	<b>Total Non Current Liabilities</b>	<b>737 589</b>	<b>746 857</b>	<b>1</b>	<b>739 701</b>	<b>705 030</b>	<b>689 959</b>
<b>957 174</b>	<b>TOTAL LIABILITIES</b>	<b>1 038 743</b>	<b>996 711</b>	<b>-4</b>	<b>996 674</b>	<b>986 431</b>	<b>981 940</b>
<b>207 258</b>	<b>NET ASSETS</b>	<b>298 243</b>	<b>49 230</b>	<b>-83</b>	<b>-82 089</b>	<b>-66 580</b>	<b>-873</b>
<b>REPRESENTED BY FUNDS EMPLOYED</b>							
207 258	Accumulated Funds	298 243	49 230	-83	-82 089	-66 580	-873
<b>207 258</b>	<b>TOTAL FUNDS EMPLOYED</b>	<b>298 243</b>	<b>49 230</b>	<b>-83</b>	<b>-82 089</b>	<b>-66 580</b>	<b>-873</b>

**Central Financing Unit  
Budgeted Statement of Cashflows on Behalf of the Territory**

2004-05 Budget \$'000		2004-05 Est.Outcome \$'000	2005-06 Budget \$'000	Var %	2006-07 Estimate \$'000	2007-08 Estimate \$'000	2008-09 Estimate \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
<b>Receipts</b>							
11 687	Cash from Government for EBT	11 331	12 939	14	11 714	11 688	11 662
69 845	Interest Received	73 006	63 773	-13	52 097	48 767	49 979
109 732	Other Revenue	105 067	104 963	..	99 376	92 890	86 433
2 094 965	Territory Receipts transferred from Agencies	2 120 827	2 248 244	6	2 323 231	2 464 806	2 570 886
<b>2 286 229</b>	<b>Operating Receipts</b>	<b>2 310 231</b>	<b>2 429 919</b>	<b>5</b>	<b>2 486 418</b>	<b>2 618 151</b>	<b>2 718 960</b>
<b>Payments</b>							
56 378	Borrowing Costs	56 843	58 706	3	57 326	57 115	56 358
38	Other	46	34	-26	22	18	18
29 987	Payments to PTE Agencies for Outputs	29 845	30 228	1	29 942	30 246	30 538
1 570 334	Payments to GGS Agencies for Outputs	1 635 115	1 702 652	4	1 716 013	1 753 869	1 805 209
368 058	Payments to Agencies for EBT	361 904	405 344	12	437 656	480 762	522 174
<b>2 024 795</b>	<b>Operating Payments</b>	<b>2 083 753</b>	<b>2 196 964</b>	<b>5</b>	<b>2 240 959</b>	<b>2 322 010</b>	<b>2 414 297</b>
<b>261 434</b>	<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>226 478</b>	<b>232 955</b>	<b>3</b>	<b>245 459</b>	<b>296 141</b>	<b>304 663</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
<b>Receipts</b>							
9 593	Proceeds from Sale/Maturities of Investments	0	0	-	45 898	19 501	0
16 048	Repayment of Advance	15 655	10 599	-32	12 144	13 226	15 089
2 200	Capital Distributions from Government Agencies	2 295	5 000	118	0	0	0
<b>27 841</b>	<b>Investing Receipts</b>	<b>17 950</b>	<b>15 599</b>	<b>-13</b>	<b>58 042</b>	<b>32 727</b>	<b>15 089</b>
<b>Payments</b>							
0	Purchase of Investments	6 107	19 131	213	0	0	2 063
24 768	Advances Issued to Government Agencies	24 768	0	-100	0	0	0
403 635	Capital Payments to Government Agencies	317 074	466 568	47	375 456	278 496	236 618
<b>428 403</b>	<b>Investing Payments</b>	<b>347 949</b>	<b>485 699</b>	<b>40</b>	<b>375 456</b>	<b>278 496</b>	<b>238 681</b>
<b>-400 562</b>	<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>	<b>-329 999</b>	<b>-470 100</b>	<b>-42</b>	<b>-317 414</b>	<b>-245 769</b>	<b>-223 592</b>

**Central Financing Unit  
Budgeted Statement of Cashflows on Behalf of the Territory**

2004-05 Budget \$'000		2004-05 Est.Outcome \$'000	2005-06 Budget \$'000	Var %	2006-07 Estimate \$'000	2007-08 Estimate \$'000	2008-09 Estimate \$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
<b>Receipts</b>							
0	Capital Injection from Government	0	214	#	214	214	214
16 156	Borrowings Received	16 602	0	-100	13 642	4 687	13 701
<b>16 156</b>	<b>Financing Receipts</b>	<b>16 602</b>	<b>214</b>	<b>-99</b>	<b>13 856</b>	<b>4 901</b>	<b>13 915</b>
<b>Payments</b>							
555	Repayment of Borrowings	554	10 641	#	12 220	13 334	15 171
18 927	Repayment of Investments to Agencies (CFU only)	61 720	36 297	-41	0	0	0
<b>19 482</b>	<b>Financing Payments</b>	<b>62 274</b>	<b>46 938</b>	<b>-25</b>	<b>12 220</b>	<b>13 334</b>	<b>15 171</b>
<b>-3 326</b>	<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>	<b>-45 672</b>	<b>-46 724</b>	<b>-2</b>	<b>1 636</b>	<b>-8 433</b>	<b>-1 256</b>
<b>-142 454</b>	<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>-149 193</b>	<b>-283 869</b>	<b>-90</b>	<b>-70 319</b>	<b>41 939</b>	<b>79 815</b>
<b>686 320</b>	<b>CASH AT BEGINNING OF REPORTING PERIOD</b>	<b>737 880</b>	<b>588 687</b>	<b>-20</b>	<b>304 818</b>	<b>234 499</b>	<b>276 438</b>
<b>543 866</b>	<b>CASH AT THE END OF THE REPORTING PERIOD</b>	<b>588 687</b>	<b>304 818</b>	<b>-48</b>	<b>234 499</b>	<b>276 438</b>	<b>356 253</b>

**Central Financing Unit  
Statement of Changes in Equity on Behalf of the Territory**

Budget as at 30/6/05 \$'000		Est.Outcome as at 30/6/05 \$'000	Planned as at 30/6/06 \$'000	Var %	Planned as at 30/6/07 \$'000	Planned as at 30/6/08 \$'000	Planned as at 30/6/09 \$'000
338 946	<b>Opening Balance</b>	419 784	298 243	-29	49 230	-82 089	-66 580
	<b>Accumulated Funds</b>						
0	Net Effect of Change in Accounting Policy	-40 272	0	100	0	0	0
-133 888	Operating Result for the Period	-83 564	-254 227	-204	-131 533	15 295	65 493
	<b>Reserves</b>						
-133 888	<b>Total Income And Expense For The Period</b>	-123 836	-254 227	-105	-131 533	15 295	65 493
	<b>Transactions Involving Equity Holders Affecting Accumulated Funds</b>						
0	Capital Injections	0	214	#	214	214	214
2 200	Capital (Distributions)	2 295	5 000	118	0	0	0
207 258	<b>Closing Balance</b>	298 243	49 230	-83	-82 089	-66 580	-873

**Notes to the Budget Statements**

Significant variations are as follows:

Many of the variations within the CFU budget statements are driven by agency activity during and between financial years. This will be disclosed in relevant explanations below.

*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 decrease of \$0.355m in the 2004-05 estimated outcome from the original budget is due to lower interest costs on the variable rate borrowings. The increase of \$1.608m in the 2005-06 Budget from the 2004-05 estimated outcome, is due to higher interest costs on the variable rate borrowings and the transfer of appropriation from the Department of Urban Services (DUS) to the CFU as the result of the removal of an internal loan payable by DUS in 2005-06;
- interest: includes investment interest returns received from banks and fund managers and interest paid by agencies on loans with CFU. The increase of \$3.149m in the 2004-05 estimated outcome from the original budget is due mainly to a combination of higher balances of funds under investment and higher investment returns. The decrease of \$9.382m in the 2005-06 Budget from the 2004-05 estimated outcome reflects a lower level of funds under investment during the year;
- transfer revenue: represents the transfer from agencies of revenue received on behalf of the Territory. Variances are driven by agency activity;
- borrowing costs: comprise interest payments made in respect of borrowings undertaken by CFU on behalf of the general government sector and ACTEW Corporation, and investment interest payments to agencies. The decrease of \$0.584m in the 2004-05 estimated outcome from the original budget is mainly due to lower debt servicing interest payments on variable rate borrowings due to lower interest rates than those originally

anticipated. The increase of \$2.448m in the 2005-06 Budget from the 2004-05 estimated outcome reflects anticipated higher interest costs on variable rate borrowings and higher payments of investment interest to agencies;

- other expenses: comprise the investment related management fees paid to external fund managers and the master custodian in respect of the general government investments. The increase of \$3.693m in the 2005-06 Budget from the 2004-05 estimated outcome reflects an internal loan of \$3.842m payable by the Department of Urban Services to the CFU which will be removed; and
- transfer expenses: represents the transfer of appropriated funds to agencies. Variances are driven by agency activity.

#### *Statement of Assets and Liabilities on Behalf of the Territory*

- receivables (current and non current): comprises loans receivable from the general government sector and from the public trading enterprise sector and transfer revenue receivable from agencies.

The increase of \$51.205m in the 2004-05 estimated outcome from the original budget for current receivables is mainly due to higher transfer revenue accruals. The decrease of \$10.534m in 2005-06 is mainly due to lower transfer revenue accruals. These variances are mainly driven by agency activity in respect of transfer revenues.

The non-current receivables decrease of \$15.774m in the 2005-06 Budget from the 2004-05 estimated outcome reflects the reduction in loans receivable from agencies. The significant reductions include ACTEW (\$7.559m) and DUS (\$7.621m).

- investments (current and non current): represents the pooled total of each individual government agency, and the Territory Banking Account, that invests surplus funds through the CFU. The decrease in total investments of \$266.651m in the 2005-06 Budget from the 2004-05 estimated outcome is due to lower than anticipated levels of cash being generated mainly by the Territory Banking Account during the year;
- other current assets: represents prepayments of appropriations to agencies;
- property, plant and equipment: this represents the Territory's motor vehicle assets leased through the ACT Fleet Financing Facility;
- interest bearing liabilities (current and non current): comprises agencies investment deposits with the CFU and external market borrowings. External borrowings include commercial paper, inscribed stock and indexed annuity bonds. The 2005-06 estimate comprises \$558.067m being external borrowings and \$386.905m being agency investments; and
- accumulated funds: the decrease of \$249.013m in 2005-06 from 2004-05 estimated outcome includes an opening balance adjustment representing a reversal of a transfer revenue receivable from the ACT Planning and Land Authority as a result of a review of the accounting treatment adopted for the transaction after the 2003-04 year.

#### *Statement of Cashflows on Behalf of the Territory*

- cash at the end of the reporting period: represents the total of cash at bank and cash equivalent investments, generally at call, which are readily convertible to cash and are not subject to significant risk of changes in value.