

CENTRAL FINANCING UNIT

Objectives

The Central Financing Unit (CFU) forms part of the Finance and Investment Group and is responsible for the funds management activities of the Government. The Unit manages the surplus cash balances of the ACT and invests funds through external managers within known cashflow requirements and established investment policies. The Unit is also responsible for the administration of the ACT's debt portfolio and the management of the Territory's debt servicing liabilities, including oversighting of the Territory's major leases of motor vehicles and IT equipment. CFU also oversights the Territory's transactional banking arrangements.

The objective of the CFU is to effectively manage capital markets functions through the maximisation of returns on investments, the achievement of competitive borrowing rates given the ACT's credit rating and the development of effective risk management strategies.

CFU manages the central finances of the Government through a separate whole of government bank account. Through this account the General Government's debt is recognised with debt servicing payments appropriated accordingly. Revenues on behalf of the Territory are transferred to this account and fortnightly disbursements to agencies also flow through this account.

During 2000-01, the Finance and Investment Advisory Board was established to provide advice in respect of the assets and liabilities of the Territory that are managed through the CFU.

2001-02 Highlights

Strategic and operational issues to be pursued in 2001-02 include:

- appointing an asset consultant to assist with reviewing the processes and strategies for the investment of general government funds;
- implementing a master custodian arrangement for the investment assets of the Central Financing Unit;
- reviewing external funds management;
- reviewing processes and strategies for government borrowings;
- overseeing whole of government banking arrangements including the provision of direction and advice in regard to transactional banking issues; and
- continuing to explore opportunities to improve cash management, banking and other related issues across agencies.

**Central Financing Unit
Statement Of Financial Performance**

2000-01 Budget \$'000		2000-01 Est.Outcome \$'000	2001-02 Budget \$'000	Var %	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000
	Revenue						
60 046	Interest	83 747	63 507	-24	59 563	61 298	60 237
60 046	Total Ordinary Revenue	83 747	63 507	-24	59 563	61 298	60 237
	Expenses						
373	Employee Expenses	188	286	52	286	285	285
65	Superannuation Expenses	41	42	2	43	46	47
380	Administrative Expenses	396	405	2	415	425	435
0	Depreciation and Amortisation	1	1	0	1	1	1
55 637	Borrowing Costs	71 011	51 021	-28	50 529	51 892	50 071
56 455	Total Ordinary Expenses	71 637	51 755	-28	51 274	52 649	50 839
3 591	Operating Result	12 110	11 752	-3	8 289	8 649	9 398
3 199	Total Equity From Start of Period	4 000	11 110	178	8 862	9 151	12 800
-5 000	Dividend Declared	-5 000	-14 000	-180	-8 000	-5 000	-6 000
1 790	Total Equity At The End of Period	11 110	8 862	-20	9 151	12 800	16 198

Central Financing Unit Statement Of Financial Position

Budget as at 30/6/01 \$'000		Est.Outcome as at 30/6/01 \$'000	Planned as at 30/6/02 \$'000	Var %	Planned as at 30/6/03 \$'000	Planned as at 30/6/04 \$'000	Planned as at 30/6/05 \$'000
Current Assets							
14 287	Receivables	15 732	13 250	-16	10 546	13 857	13 859
289 263	Investments	413 122	316 374	-23	326 064	369 862	465 691
303 550	Total Current Assets	428 854	329 624	-23	336 610	383 719	479 550
Non Current Assets							
499 306	Receivables	503 811	496 803	-1	495 495	490 878	486 260
0	Property, Plant and Equipment	4	3	-25	2	1	-1
499 306	Total Non Current Assets	503 815	496 806	-1	495 497	490 879	486 259
802 856	TOTAL ASSETS	932 669	826 430	-11	832 107	874 598	965 809
Current Liabilities							
10 246	Creditors	14 437	14 237	-1	14 179	14 182	14 185
429 511	Interest Bearing Liabilities	529 908	426 107	-20	432 731	476 049	568 612
55	Employee Entitlements	45	45	-	47	48	50
439 812	Total Current Liabilities	544 390	440 389	-19	446 957	490 279	582 847
Non Current Liabilities							
361 120	Interest Bearing Liabilities	377 126	377 134	0	375 953	371 472	366 716
0	Employee Entitlements	43	45	5	46	47	48
134	Other Provisions	0	0	-	0	0	0
361 254	Total Non Current Liabilities	377 169	377 179	0	375 999	371 519	366 764
801 066	TOTAL LIABILITIES	921 559	817 568	-11	822 956	861 798	949 611
1 790	NET ASSETS	11 110	8 862	-20	9 151	12 800	16 198
REPRESENTED BY FUNDS EMPLOYED							
1 790	Accumulated Funds	11 110	8 862	-20	9 151	12 800	16 198
1 790	TOTAL FUNDS EMPLOYED	11 110	8 862	-20	9 151	12 800	16 198

Central Financing Unit Cashflow Statement

2000-01 Budget \$'000		2000-01 Est.Outcome \$'000	2001-02 Budget \$'000	Var %	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts							
55 520	Interest Received	78 157	63 266	-19	59 564	61 298	60 237
0	Other Revenue	54	53	-2	54	55	57
55 520	Operating Receipts	78 211	63 319	-19	59 618	61 353	60 294
Payments							
435	Related to Employees	317	325	3	326	329	330
380	Related to Administration	396	405	2	416	425	435
51 125	Borrowing Costs	64 593	50 948	-21	50 253	51 613	49 791
0	Other	51	53	4	54	55	57
51 940	Operating Payments	65 357	51 731	-21	51 049	52 422	50 613
3 580	NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	12 854	11 588	-10	8 569	8 931	9 681
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
1 321 300	Proceeds from Sale/Maturities of Investments	1 476 200	1 426 200	-3	1 426 200	1 426 200	1 426 200
6 437	Repayment of Advance	3 737	10 237	174	3 953	1 308	4 617
1 327 737	Investing Receipts	1 479 937	1 436 437	-3	1 430 153	1 427 508	1 430 817
Payments							
1 339 598	Purchase of Investments	1 467 849	1 329 858	-9	1 435 890	1 470 001	1 522 030
0	Advances Issued to Government Agencies	1 600	0	-100	0	0	0
1 339 598	Investing Payments	1 469 449	1 329 858	-9	1 435 890	1 470 001	1 522 030
-11 861	NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	10 488	106 579	916	-5 737	-42 493	-91 213
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
2 590 079	Borrowings Received	2 904 992	2 690 270	-7	2 687 797	2 694 061	2 692 061
2 590 079	Financing Receipts	2 904 992	2 690 270	-7	2 687 797	2 694 061	2 692 061
Payments							
5 000	Dividends to Government	5 000	14 000	180	8 000	5 000	6 000
434 288	Repayment of Borrowings	489 186	359 734	-26	352 206	345 824	349 399
2 142 510	Repayment of Investments to Agencies (CFU only)	2 434 148	2 434 703	0	2 330 423	2 309 675	2 255 130
2 581 798	Financing Payments	2 928 334	2 808 437	-4	2 690 629	2 660 499	2 610 529
8 281	NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	-23 342	-118 167	-406	-2 832	33 562	81 532
0	NET INCREASE/(DECREASE) IN CASH HELD	0	0	-	0	0	0
0	CASH AT END OF THE REPORTING PERIOD	0	0	-	0	0	0

Notes to the Budget Statements

Significant variations are as follows:

Statement of Financial Performance

- interest revenue: interest revenue includes investment interest returns received from banks and fund managers and interest paid by agencies on loans from CFU. The increase of \$23.7m from the original budget to the 2000-01 estimated outcome comprises an increase in interest from banks of \$23.5m due to higher than anticipated levels of funds on investments and an increase in advance/loan interest from the general government sector of \$0.227m;

In 2001-02 interest revenue from banks is estimated to decrease by \$13.692m due to anticipated lower level of funds under investment. Advance/loan interest from the general government sector is estimated to decrease by \$3.022m due to a lower interest rate projection for refinanced inscribed stock maturing in November. Advance/loan interest from the public trading sector is estimated to decrease by \$3.526m due to expected lower interest rates.

- employee expenses: the decrease of \$0.185m in 2000-01 compared to the original budget is due to a senior position within the Unit being unoccupied during 2000-01, which will be filled during 2001-02; and
- interest expenses: interest expenses 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 clients. The net increase in 2000-01 from the original budget of \$15.374m is due mainly to an increase in investment interest payments to clients due to higher levels of funds under investment. In 2001-02 interest payments are estimated to decrease by \$19.990m due mainly to lower anticipated level of funds under investment, thus resulting in lower interest payments to clients, and a lower amount of interest payments made on borrowings due to lower interest rate projections.

Statement of Financial Position

- receivables: comprises loans receivable from the general government sector and from the public trading enterprise sector. Total receivables will decrease by \$9.490m in 2001-02 due to the repayment of loans from the general government and Totalcare;
- current investments: the CFU investment balance represents the pooled total of each individual Government agency that invests its surplus funds with the CFU. Increases or decreases in the total investment balance are determined by each individual agencies' budgeted investment activities each financial year. Accordingly, the decrease in the 2001-02 budget and forward years is a reflection of agencies' budgeted investment activities;
- current creditors: the 2000-01 budget estimate includes interest bearing liabilities, being agency investments with the CFU (\$268.347m). A change in the accounting standards has resulted in the liabilities now being classified as interest bearing liabilities for 2000-01 and the forward years; and
- interest bearing liabilities: comprise agency investments with the CFU and external market borrowings. Increases or decreases in agency investment are determined by each agency's budgeted investment activities. It is anticipated that the investment levels will

decrease in 2001-02 by \$100m. Current borrowings are expected to decrease by \$4m in 2001-02. Non-current borrowings comprise external borrowings with the financial markets, including inscribed stock and indexed annuity bonds.

**Central Financing Unit
Statement Of Revenues And Expenses On Behalf Of The Territory**

2000-01 Budget \$'000		2000-01 Est.Outcome \$'000	2001-02 Budget \$'000	Var %	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000
Revenue							
19 029	Payment for Expenses on behalf of Territory	29 887	52 635	76	13 413	13 923	13 923
21 842	Interest	20 188	17 071	-15	17 368	16 760	16 419
81 662	Other Revenue	76 121	80 845	6	82 286	82 844	83 569
1 558 950	Transfer Revenue	1 641 435	1 675 140	2	1 690 461	1 719 862	1 753 369
1 681 483	Total Ordinary Revenue	1 767 631	1 825 691	3	1 803 528	1 833 389	1 867 280
Expenses							
19 029	Borrowing Costs	19 029	15 205	-20	13 413	13 923	13 923
0	Other Expenses	10 858	37 430	245	0	0	0
1 514 292	Transfer Expenses	1 792 234	1 871 100	4	1 823 802	1 820 859	1 808 509
1 533 321	Total Ordinary Expenses	1 822 121	1 923 735	6	1 837 215	1 834 782	1 822 432
148 162	Operating Result	-54 490	-98 044	-80	-33 687	-1 393	44 848
0	Increase/(Decrease) in retained profits on the adoption of a new standard	1	0	-100	-1	0	0
0	Change In Equity Other Than Those Resulting From Transactions With Owners As Owners	1	0	-100	-1	0	0
729 430	Total Equity From Start of Period	67 937	138 980	105	47 341	23 047	29 168
6 068	Distributions to Government	125 639	6 405	-95	9 394	7 514	7 058
-3 763	Inc/Dec in Net Assets from Admin Restructure	-107	0	100	0	0	0
879 898	Total Equity At The End of Period	138 980	47 341	-66	23 047	29 168	81 074

**Central Financing Unit
Statement Of Assets And Liabilities On Behalf Of The Territory**

Budget as at 30/6/01 \$'000		Est.Outcome as at 30/6/01 \$'000	Planned as at 30/6/02 \$'000	Var %	Planned as at 30/6/03 \$'000	Planned as at 30/6/04 \$'000	Planned as at 30/6/05 \$'000
Current Assets							
1 841	Cash	55 703	56 309	1	55 210	56 567	56 853
119 019	Receivables	60 698	55 914	-8	57 798	54 968	56 800
22 500	Investments	137 000	85 000	-38	63 000	74 000	125 500
28 462	Other	18 945	18 445	-3	18 445	18 444	18 443
171 822	Total Current Assets	272 346	215 668	-21	194 453	203 979	257 596
Non Current Assets							
50 742	Receivables	45 635	9 503	-79	3 641	641	254
849 334	Investments	0	0	-	0	0	0
33 653	Property, Plant and Equipment	27 768	28 185	2	28 612	29 050	29 498
933 729	Total Non Current Assets	73 403	37 688	-49	32 253	29 691	29 752
1 105 551	TOTAL ASSETS	345 749	253 356	-27	226 706	233 670	287 348
Current Liabilities							
19 850	Creditors	6 850	7 257	6	6 050	6 455	7 779
1 577	Interest Bearing Liabilities	1 577	1 576	-	0	0	0
0	Finance Leases	11 107	11 107	-	11 107	11 107	11 107
21 427	Total Current Liabilities	19 534	19 940	2	17 157	17 562	18 886
Non Current Liabilities							
170 574	Interest Bearing Liabilities	170 574	168 998	-1	168 998	168 998	168 998
33 653	Finance Leases	16 662	17 078	2	17 505	17 943	18 391
204 227	Total Non Current Liabilities	187 236	186 076	-1	186 503	186 941	187 389
225 654	TOTAL LIABILITIES	206 770	206 016	..	203 660	204 503	206 275
879 898	NET ASSETS	138 980	47 341	-66	23 047	29 168	81 074
REPRESENTED BY FUNDS EMPLOYED							
879 898	Accumulated Funds	138 980	47 341	-66	23 047	29 168	81 074
879 898	TOTAL FUNDS EMPLOYED	138 980	47 341	-66	23 047	29 168	81 074

Central Financing Unit
Budgeted Statement Of Cashflows On Behalf Of The Territory

2000-01 Budget \$'000		2000-01 Est.Outcome \$'000	2001-02 Budget \$'000	Var %	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000
2 661	CASH AT BEGINNING OF REPORTING PERIOD	-32 596	55 703	271	56 309	55 210	56 567
	CASH FLOWS FROM OPERATING ACTIVITIES						
	Receipts						
19 029	Cash from Government for EBT	29 887	52 635	76	13 413	13 923	13 923
21 472	Interest Received	20 820	16 522	-21	17 366	16 760	16 419
79 665	Other Revenue	76 631	80 869	6	82 310	82 872	83 593
1 538 828	Territory Receipts transferred from Agencies	1 699 081	1 694 547	..	1 697 238	1 726 890	1 760 504
1 658 994	Operating Receipts	1 826 419	1 844 573	1	1 810 327	1 840 445	1 874 439
	Payments						
19 029	Borrowing Costs	19 029	15 205	-20	13 413	13 923	13 923
0	Payments to PTE Agencies for Outputs	0	1 050	#	450	450	450
1 194 365	Payments to GGS Agencies for Outputs	1 203 407	1 247 681	4	1 260 862	1 284 182	1 311 057
311 765	Payments to Agencies for EBT	335 280	395 548	18	366 642	365 722	339 623
540	Territory Receipts to Government	0	0	-	0	0	0
1 525 699	Operating Payments	1 557 716	1 659 484	7	1 641 367	1 664 277	1 665 053
133 295	NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	268 703	185 089	-31	168 960	176 168	209 386
	CASH FLOWS FROM INVESTING ACTIVITIES						
	Receipts						
1 055 997	Proceeds from Sale/Maturities of Investments	1 032 724	982 724	-5	982 724	982 724	982 724
3 501	Repayment of Advance	1 784	1 130	-37	8 031	5 861	2 940
6 388	Capital Distributions from Government Agencies	123 070	5 657	-95	6 541	9 428	7 514
1 065 886	Investing Receipts	1 157 578	989 511	-15	997 296	998 013	993 178
	Payments						
1 048 497	Purchase of Investments	1 064 047	930 723	-13	960 723	993 724	1 034 223
12 076	Advances Issued to Government Agencies	6 036	8 780	45	0	0	0
127 185	Capital Payments to Government Agencies	255 656	232 914	-9	205 056	179 100	168 055
1 187 758	Investing Payments	1 325 739	1 172 417	-12	1 165 779	1 172 824	1 202 278
-121 872	NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	-168 161	-182 906	-9	-168 483	-174 811	-209 100
	CASH FLOWS FROM FINANCING ACTIVITIES						

**Central Financing Unit
Budgeted Statement Of Cashflows On Behalf Of The Territory**

2000-01 Budget \$'000		2000-01 Est.Outcome \$'000	2001-02 Budget \$'000	Var %	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000
	Payments						
12 243	Repayment of Borrowings	12 243	1 577	-87	1 576	0	0
12 243	Financing Payments	12 243	1 577	-87	1 576	0	0
-12 243	NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	-12 243	-1 577	87	-1 576	0	0
-820	NET INCREASE/(DECREASE) IN CASH HELD	88 299	606	-99	-1 099	1 357	286
1 841	CASH AT THE END OF THE REPORTING PERIOD	55 703	56 309	1	55 210	56 567	56 853

Notes to the Budget Statements

Significant variations are as follows:

Statement of Revenues 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 increase from the original budget of \$10.858 represents the appropriation to support the write off of loans for the Kingston Foreshore Development Authority (\$4.2m), InTACT (\$1.2m) and the Stadiums Authority (\$5.4m). The net increase in 2001-02 (\$22.748m) comprises a reduction in debt servicing interest appropriation (\$3.8m) and an increase in appropriation to support the write off of loans for the Australian International Hotel School (\$7.3m) and InTACT (\$30m);
- interest: comprises interest received on advances and loans from government agencies and capital charge revenue. Advances and loans interest totals \$0.825m. In 2001-02, advances and loans interest will decrease by \$0.323 due to the write off of a number of loans. Capital charge totals \$16.246m in 2001-02 and will decrease by \$2.8m representing a lower level of general government debt serving costs;
- other revenue: employer superannuation contributions made by budget funded agencies to the superannuation account are paid directly to this account following the introduction of the *Territory Superannuation Provision Protection Bill 2000* that took effect from 1 July 2000;
- transfer revenue: represents the aggregate total of each government agency that collects and passes on territorial revenues. Increases or decreases in the total transfer revenue are determined by each agency's budgeted activities each financial year. Accordingly, the increase in the 2001-02 Budget and forward years is a reflection of agencies' budgeted transfer revenues;

- borrowing costs: comprises interest paid on advances and loans to the CFU departmental account, in respect of general government market loans, and interest on Commonwealth advances, in respect of historical loans provided by the Commonwealth at the time of self-government. The decrease in 2001-02 comprises projected lower interest rates to be applied to the floating rate market loans and the retirement of the final outstanding balance of the Commonwealth borrowings made in 2000-01;
- other expenses: represents the write off of loans provided to the Kingston Foreshore Development Authority (\$4.2m), Intact (\$1.2m) and the Stadium Authority (\$5.4m); and
- transfer expenses: represents the payments for outputs to agencies as well as payments to agencies for expenditure on behalf of the Territory. The CFU expense represents the aggregate total of each government agency that receives appropriations. Increases or decreases in the total transfer expenses are determined by each agency's budgeted activities each financial year. Accordingly, the increase in the 2001-02 Budget and forward years is a reflection of agencies' budgeted transfer expenses.

Statement of Assets and Liabilities on Behalf of the Territory

- current receivables: comprises mainly of, transfer revenue receivable from agencies and a small component of the principal repayments receivable on internal loans provided to government agencies;
- non-current receivables: comprise mainly of, non-current balances of internal loans provided to government agencies. Agencies include: Australian International Hotel School; Kingston Foreshore; InTACT; Department of Education and Community Services, Department of Urban Services and ACT Forests;
- non-current investments: this represents capital injection payments to government agencies in the 2000-01 budget. The decrease of \$849.334m in 2000-01 from the original budget result from a change of accounting policy has now resulted in these injections being classified as an operating expense;
- property, plant and equipment: this represents motor vehicle assets leased through the ACT Fleet Facility;
- current interest bearing liabilities: comprises the current loan liability in respect of general government market debt. As at 30 June 2001 only general government market loans will remain outstanding. All outstanding loans from the Commonwealth for general government purposes have been repaid; and
- non-current interest bearing liabilities: comprises the balance of general government market debt with the Central Financing Unit departmental account.

Changes to Appropriation

Changes to Appropriation – Territorial

Capital Injection	2000-01 Est. Outc. \$'000	2001-02 Budget \$'000	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000
2000-01 Budget	13 093	1 577	1 577	0	0
2001-02 Budget	13 093	1 577	1 577	0	0

Changes to Appropriation – Territorial

Payment for Expenses on Behalf of the Territory	2000-01 Est. Outc. \$'000	2001-02 Budget \$'000	2002-03 Estimate \$'000	2003-04 Estimate \$'000	2004-05 Estimate \$'000
2000-01 Budget	19 029	15 707	13 275	13 094	13 094
Interest Expense	0	-502	138	829	829
Loan Write-Off Appropriation	10 858	37 430	0	0	0
2001-02 Budget	29 887	52 635	13 413	13 923	13 923

OUTPUT CLASS 1: CENTRAL FINANCING UNIT
PRINCIPAL MEASURES

OUTPUT 1.1: CENTRAL FINANCING UNIT

Description: Management of the investment and borrowing activities of the ACT Government.

Measures	2000-01 Targets	2000-01 Estimated Outcome	2001-02 Targets
Quantity			
a) Monthly financial reports.	12	12	12
b) Submission to Standard and Poors rating review.	Nov 2000	Nov 2000	Nov 2001
c) Submission to Moody's rating review.	Nov 2000	Nov 2000	Nov 2001
d) Investment of cash balances on a daily basis.	245 days	245 days	245 days
e) Payment of interest on Agency Investment Accounts.	4	4	4
f) Payment of disbursements to agencies.	26	26	26
Quality/Effectiveness			
g) Service meets standards described in <i>ACT Public Service Customer Service Standards</i> .	100%	100%	100%
h) Investment activity meets benchmark returns/follow up action taken.	100%	100%	100%
i) Payment of interest within five working days.	100%	100%	100%
j) Payment of disbursements on due date.	100%	100%	100%
Timeliness			
k) Reviews and specified timeframes achieved.	100%	100%	100%
l) Monthly financial reports on time.	100%	100%	100%
Cost			
m) Cost of provision of CFU functions.	\$818 000	\$626 000	\$734 000
n) Cost per 1000 head of population.	\$2 619	\$2 004	\$2 350
o) Cost per ACT Public Service employee.	\$46	\$35	\$42
DEPARTMENTAL COST (\$'000)	\$56 455.0	\$71 637.0	\$51 755.0
TERRITORIAL COST (\$'000)	\$1 533 321.0	\$1 822 221.0	\$1 923 735.0
TOTAL COST (\$'000)	\$1 589 776.0	\$1 893 858.0	\$1 975 490.0
EXPENSE ON BEHALF OF THE TERRITORY (\$'000)	\$19 029.0	\$29 887.0	\$52 635.0