

AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

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AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Section 1: Agency overview and resources

1.1 STRATEGIC DIRECTION

The Australian Office of Financial Management (AOFM) is responsible for the management of Australian Government debt and financial assets. It issues Treasury Bonds, Treasury Indexed Bonds and Treasury Notes, manages the Government's cash balances and invests in high quality financial assets including residential mortgage-backed securities, term deposits, money market instruments and short-dated State government bonds.

For some years the Government has issued Treasury Bonds in order to maintain liquid and efficient Bond and Bond futures markets, reflecting the important role that these markets play in the Australian financial system. Since February 2009 debt issuance has been required to fund the Budget. Treasury Bonds continue to be the main instrument in the AOFM's issuance strategy to meet the Government's funding needs. The use of Treasury Indexed Bonds facilitates the diversification of the investor base by tapping into additional sources of investor demand.

Treasury Notes and short-term assets are used to manage the Government's within-year financing task.

The AOFM makes direct investment in high quality, AAA rated residential mortgage-backed securities to support competition in residential mortgage lending and to support lending to small business. Subject to market conditions, in 2011-12 the AOFM will continue to consider proposals for investment in residential mortgage-backed securities in accordance with the terms of the program. Under the Competitive and Sustainable Banking Package the AOFM has a mandate to invest up to \$20 billion. This will allow the AOFM to continue to support smaller lenders, and to accelerate the development of a range of residential mortgage-backed securities.

In the 2011-12 Budget, the AOFM will receive additional funding to implement the trading of Commonwealth Government Securities (CGS) on a securities exchange. Retail trading of CGS will facilitate broader access to the Government's debt products and may facilitate further development of the corporate bond market in Australia.

1.2 AGENCY RESOURCE STATEMENT

Table 1.1 shows the total resources from all sources. The table summarises how resources will be applied by outcome and by administered and departmental classification.

Table 1.1: Australian Office of Financial Management resource statement — Budget estimates for 2011-12 as at Budget May 2011

	Estimate of prior year amounts available in 2011-12 \$'000	+	Proposed at Budget 2011-12 \$'000	=	Total estimate 2011-12 \$'000	Actual available appropriation 2010-11 \$'000
Ordinary annual services						
Departmental						
Prior year departmental appropriation	15,803	⁴	-		15,803	-
Departmental appropriation ³	-		15,442	¹	15,442	16,146
Receipts from other sources (s31)	-		828	²	828	828
Total departmental	15,803		16,270		32,073	16,974
Administered expenses						
Outcome 1	-		10	¹	10	10
Total ordinary annual services	A		16,280		32,083	16,984
Other services						
Departmental non-operating						
Equity injections	662		-		662	-
Total other services	B		-		662	-
Total available annual appropriations (A+B)			16,280		32,745	16,984
Special appropriations expenses						
<i>Commonwealth Inscribed Stock Act 1911</i>	-		11,630,900		11,630,900	9,285,582
<i>Financial Agreement Act 1994</i>	-		50		50	50
<i>Loans Securities Act 1919</i>	-		600		600	800
Subtotal	-		11,631,550		11,631,550	9,286,432
Special appropriations capital						
<i>Commonwealth Inscribed Stock Act 1911</i>	-		182,134,100		182,134,100	81,860,015
<i>Loans Securities Act 1919</i>	-		-		-	6,223,000
<i>Financial Management and Accountability Act 1997</i>	-		167,343,900		167,343,900	269,869,000
Subtotal	-		349,478,000		349,478,000	357,952,015
Total special appropriations	C		361,109,550		361,109,550	367,238,447

Table 1.1: Australian Office of Financial Management resource statement — Budget estimates for 2011-12 as at Budget May 2011 (continued)

	Estimate of prior year amounts available in 2011-12 \$'000	+	Proposed at Budget 2011-12 \$'000	=	Total estimate 2011-12 \$'000	Actual available appropriation 2010-11 \$'000
Total appropriations excluding special accounts	16,465		361,125,830		361,142,295	367,255,431
Special accounts						
Opening balance ⁵	494		-		494	-
Total special account	494	D	-		494	-
Total net resourcing for the AOFM (A+B+C+D)	16,959		361,125,830		361,142,789	367,255,431

1. Appropriation Bill (No. 1) 2011-12.
2. Receipts received under s31 of the *Financial Management and Accountability Act 1997*.
3. Includes \$3.0 million in 2011-12 for the departmental capital budget (refer to Table 3.2.5 for further details).
4. Estimated adjusted balance carried forward from previous year for annual appropriations.
5. Estimated opening balance for special accounts (refer to Table 3.1.2 for further details).

1.3 BUDGET MEASURES

Budget measures relating to the AOFM are detailed in Budget Paper No. 2, *Budget Measures 2011-12* and are summarised below.

Table 1.2: Australian Office of Financial Management 2011-12 Budget measures

Program	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000
Expense measures					
Competitive and Sustainable					
Banking - trading of Commonwealth Government Securities on a securities exchange					
Departmental	1.1	-	860	-	-
Administered	1.1	-	-	3,542	3,366
Efficiency dividend - temporary increase in the rate	1.1	-	(59)	(120)	(108)
Total expense measures		-	801	3,422	3,258
Related capital					
Efficiency dividend - temporary increase in the rate	1.1	-	(15)	(5)	(7)
Total related capital		-	(15)	(5)	(7)

Prepared on a government finance statistics (fiscal) basis.

Section 2: Outcomes and planned performance

2.1 OUTCOMES AND PERFORMANCE INFORMATION

Government outcomes are the intended results, impacts or consequences of actions by the Government on the Australian community. Commonwealth programs are the primary vehicle by which government agencies achieve the intended results of their outcome statements. Agencies are required to identify the programs which contribute to government outcomes over the budget and forward years.

The AOFM's outcome is described below, specifying the strategy, program, objective, deliverables and key performance indicators used to assess and monitor the performance of the AOFM.

Outcome 1: The advancement of macroeconomic growth and stability, and the effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and cash for the Australian Government

Outcome 1 strategy

The AOFM's activities include debt issuance, cash management, investment, portfolio management, compliance, financial reporting, debt administration, promotional activities with investors, monitoring of market conditions and liaison with market participants.

Currently debt issuance is directed to meeting the Government's Budget funding needs. Both Treasury Bonds and Treasury Indexed Bonds will be issued to meet this objective. Issuance will remain flexible to achieve an appropriate balance between meeting investor demand, and managing refinancing risk and the costs of the debt portfolio.

The within-year cash management task results from differences in the timing of receipts and payments in the Official Public Account. In managing the Government's cash requirements, the AOFM will continue to issue Treasury Notes and make short-term term deposits with the Reserve Bank of Australia and invest in money market instruments and fixed interest investments. In 2010-11 the AOFM established Global Master Repurchase Agreements with a number of the members of its investment facility dealing panel in order to enter into repurchase agreements on its fixed interest investments.

In December 2010, the Government further extended its program of investing in residential mortgage-backed securities by \$4 billion as part of the Competitive and Sustainable Banking Package.

Over the course of 2011-12 the AOFM will work to implement the retail trading of CGS on a securities exchange. This will entail the selection and appointment of one or more securities exchanges and the selection and appointment of a stock registry.

The AOFM's financial assets and financial liabilities are managed in accordance with legislative requirements, delegations and directions from the Treasurer and instructions from the Secretary to the Treasury and the AOFM Chief Executive. This governance framework ensures that activities and financial risks are managed in a tightly controlled manner.

Outcome expense statement

Table 2.1 provides an overview of the total expenses for Outcome 1.

Table 2.1: Budgeted expenses for Outcome 1

	2010-11 Estimated actual expenses \$'000	2011-12 Estimated expenses \$'000
Outcome 1: The advancement of macroeconomic growth and stability, and the effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and cash for the Australian Government		
Program 1.1: Australian Office of Financial Management		
Departmental expenses		
Departmental appropriation	13,724	13,241
Expenses not requiring appropriation in budget year	711	911
Administered expenses		
Ordinary annual services (Appropriation Bill No. 1)	10	10
Special appropriations		
<i>Commonwealth Inscribed Stock Act 1911</i>	9,285,582	11,630,900
<i>Financial Agreement Act 1994</i>	50	50
<i>Loans Securities Act 1919</i>	800	600
Total expenses for Outcome 1	9,300,877	11,645,712
	2010-11	2011-12
Average staffing level (number)	42	46

Contributions to Outcome 1

Program 1.1: Australian Office of Financial Management

Program objective

Achievement of the Government's financing task in a cost-effective manner, subject to acceptable risk, maintain liquidity in the Treasury Bond and Treasury Bond futures markets, and facilitate a return to a competitive residential mortgage-backed securities market.

Program expenses

With the increased level of debt on the AOFM's administered balance sheet, debt servicing costs arising from the issuance will also rise.

Table 2.2: Program expenses

	2010-11 Revised budget \$'000	2011-12 Budget \$'000	2012-13 Forward year 1 \$'000	2013-14 Forward year 2 \$'000	2014-15 Forward year 3 \$'000
Annual departmental expenses:					
Departmental items	14,435	14,152	13,529	10,146	10,274
Annual administered expenses:					
Administered item	10	10	3,552	3,376	3,446
Special Appropriations:					
<i>Commonwealth Inscribed Stock Act 1911</i>	9,285,582	11,630,900	12,611,100	12,850,200	12,598,100
<i>Financial Agreement Act 1994</i>	50	50	50	50	50
<i>Loans Securities Act 1919</i>	800	600	600	600	600
Total program expenses	9,300,877	11,645,712	12,628,831	12,864,372	12,612,470

Program deliverables

The AOFM has the following key deliverables:

- issue Treasury Bonds, Treasury Indexed Bonds and Treasury Notes;
- invest in residential mortgage-backed securities;
- manage the Official Public Account balance; and
- manage the risks of the debt portfolio.

Program key performance indicators

The AOFM has the following key performance indicators:

- debt issuance – volume and efficiency of issuance,

- monitoring issue yields against secondary market yields,
- monitoring the range of accepted bids, and
- monitoring the tender bids ratio; and
- efficient management of the Government’s cash balances,
 - maintaining the 91 day moving average of the Government’s cash balances within operational limits and within the Ministerial limit throughout the year, and
 - using the overdraft facility with the Reserve Bank of Australia to cover unexpected events only; and
- promote investors’ take up of Commonwealth Government Securities by intermediaries and investors,
 - building relations through the conduct of investor meetings and conference presentations; and
- investment in residential mortgage-backed securities,
 - the volume of investment undertaken, the extent of participation by other investors and the quality of the securities issued; and
- operating within legal and policy limits,
 - compliance with legislative and policy limits.

Section 3: Explanatory tables and budgeted financial statements

Section 3 presents explanatory tables and budgeted financial statements which provide a comprehensive snapshot of agency finances for the 2011-12 budget year. It explains how budget plans are incorporated into the financial statements and provides further details of the reconciliation between appropriations and program expenses, movements in administered funds, special accounts and government Indigenous expenditure.

3.1 EXPLANATORY TABLES

3.1.1 Movement of administered funds between years

The AOFM has not moved any administered funds between years.

3.1.2 Special accounts

Special accounts provide a means to set aside and record amounts used for specified purposes. Special accounts can be created by a Finance Minister's Determination under the *Financial Management and Accountability Act 1997* or under separate enabling legislation. Table 3.1.2 shows the expected additions (receipts) and reductions (payments) for each account used by the AOFM.

Table 3.1.2: Estimates of special account cash flows and balances

	Opening balance	Receipts		Payments		Adjustments		Closing balance
		2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	
	2010-11	2010-11	2010-11	2010-11	2010-11	2010-11	2010-11	
	Outcome	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Debt Retirement Reserve Trust	1	494	-	-	-	-	-	494
Account		494	-	-	-	-	-	494
Total special accounts								
2011-12 Budget estimate		494	-	-	-	-	-	494
Total special accounts								
2010-11 estimated actual		494	-	-	-	-	-	494

Until July 1990, the Australian Government borrowed on behalf of the State and Northern Territory Governments and allocated a portion of its Treasury Bond raisings to those governments to fund the redemption of previous allocations of bonds. Until 1986, the Australian Government also borrowed on behalf of State and Northern Territory Governments to raise new borrowings. In addition, there are outstanding balances of various loans raised by the State Governments.

The annual funding to meet the redemption of debt allocated to the States and the Northern Territory is governed by the *Financial Agreement Act 1994*, which requires the Australian Government to establish and maintain the Debt Retirement Reserve Trust Account for the States and the Northern Territory. Monies standing to the credit of a State or the Northern Territory are applied by the Australian Government in connection with the repurchase and repayment of the debt of that State or the Northern Territory.

Only perpetual debt with no fixed maturity date remains outstanding under these arrangements for New South Wales, Victoria and South Australia. Redemption of the perpetual debt is at the discretion of the relevant State.

3.1.3 Australian Government Indigenous Expenditure

The AOFM does not have any Australian Government Indigenous Expenditure.

3.2 BUDGETED FINANCIAL STATEMENTS

3.2.1 Differences in agency resourcing and financial statements

Departmental

Sales of goods and rendering of services revenue as recorded in the comprehensive income statement (Table 3.2.1) includes resources received free of charge from the Australian National Audit Office for audit services. Departmental agency receipts as recorded in the agency resource statement (Table 1.1) exclude the estimated value of these services.

Administered

The AOFM receives administered appropriations for expenses and for capital expenditure arising from managing a portfolio of debt and assets. This is reflected in the agency resource statement (Table 1.1). The administered financial statements identify expenses in the schedule of budgeted income and expenses (Table 3.2.7), and capital expenditures in the capital budget schedule (Table 3.2.10).

3.2.2 Analysis of budgeted financial statements

Departmental

The AOFM forecasts that during the forward estimates period it will need to make renewed capital investment in agency infrastructure. Capital expenditure on the replacement of AOFM's specialist debt management systems represents the majority of this expenditure.

Administered

The budget and forward estimates reflect expected increases in debt issuance and debt levels over the next few years to meet the Government's funding needs. With the increased level of debt, debt servicing costs will also rise.

Assets administered on behalf of the Government include investments in residential mortgage-backed securities made in accordance with the Government's policy to support competition in lending for housing. They also include investments in short term assets held as part of the AOFM's management of the Government's cash balances.

3.2.3 Budgeted financial statements tables

Table 3.2.1: Budgeted departmental comprehensive income statement (for the period ended 30 June)

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
EXPENSES					
Employee benefits	6,724	7,132	7,570	6,015	6,604
Supplier	7,261	6,370	5,309	3,581	3,070
Depreciation and amortisation	450	650	650	550	600
Total expenses	14,435	14,152	13,529	10,146	10,274
LESS:					
OWN-SOURCE INCOME					
Sale of goods and rendering of services	1,089	1,089	1,089	1,089	1,089
Total own-source income	1,089	1,089	1,089	1,089	1,089
Net cost of (contribution by) services	13,346	13,063	12,440	9,057	9,185
Appropriation revenue	15,896	12,413	11,790	8,507	8,585
Surplus (deficit) attributable to the Australian Government	2,550	(650)	(650)	(550)	(600)
Note: Reconciliation of operating result attributable to the agency					
	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000
Operating result attributable to the Australian Government	2,550	(650)	(650)	(550)	(600)
Plus non-appropriated expenses depreciation and amortisation expenses	450	650	650	550	600
Operating result attributable to the AOFM	3,000	-	-	-	-

Prepared on Australian Accounting Standards basis.

**Table 3.2.2: Budgeted departmental balance sheet
(as at 30 June)**

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
ASSETS					
Financial assets					
Cash and equivalents	337	578	858	1,016	1,216
Trade and other receivables ¹	16,304	16,304	16,304	16,304	16,304
Total financial assets	16,641	16,882	17,162	17,320	17,520
Non-financial assets					
Infrastructure, plant and equipment	626	505	564	628	1,261
Intangibles	381	2,881	2,681	2,581	2,281
Other	98	98	98	98	98
Total non-financial assets	1,105	3,484	3,343	3,307	3,640
Total assets	17,746	20,366	20,505	20,627	21,160
LIABILITIES					
Provisions					
Employees	1,834	2,075	2,355	2,513	2,713
Other	130	130	130	130	130
Total provisions	1,964	2,205	2,485	2,643	2,843
Payables					
Suppliers	332	332	332	332	332
Total payables	332	332	332	332	332
Total liabilities	2,296	2,537	2,817	2,975	3,175
Net assets	15,450	17,829	17,688	17,652	17,985
EQUITY					
Contributed equity	1,496	4,525	5,034	5,548	6,481
Retained surpluses	13,954	13,304	12,654	12,104	11,504
Total equity	15,450	17,829	17,688	17,652	17,985
Current assets	611	852	1,132	1,290	1,490
Non-current assets	17,135	19,514	19,373	19,337	19,670
Current liabilities	1,012	1,085	1,169	1,216	1,276
Non-current liabilities	1,284	1,452	1,648	1,759	1,899

1. Includes undrawn appropriations of \$16.1 million.
Prepared on Australian Accounting Standards basis.

**Table 3.2.3: Budgeted departmental statement of cash flows
(for the period ended 30 June)**

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	828	828	828	828	828
Appropriations	12,896	12,413	11,790	8,507	8,585
Total cash received	13,724	13,241	12,618	9,335	9,413
Cash used					
Employees	6,477	6,891	7,290	5,857	6,404
Suppliers	7,000	6,109	5,048	3,320	2,809
Total cash used	13,477	13,000	12,338	9,177	9,213
Net cash from or (used by) operating activities	247	241	280	158	200
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment and intangibles	537	3,029	509	514	933
Total cash used	537	3,029	509	514	933
Net cash from or (used by) investing activities	(537)	(3,029)	(509)	(514)	(933)
FINANCING ACTIVITIES					
Cash received					
Contributed equity	537	3,029	509	514	933
Total cash received	537	3,029	509	514	933
Net cash from or (used by) financing activities	537	3,029	509	514	933
Net increase or (decrease) in cash held	247	241	280	158	200
Cash at the beginning of the reporting period	90	337	578	858	1,016
Cash at the end of the reporting period	337	578	858	1,016	1,216

Prepared on Australian Accounting Standards basis.

Table 3.2.4: Departmental statement of changes in equity — summary of movement (budget year 2011-12)

	Retained surpluses \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Contributed equity/ capital \$'000	Total equity \$'000
Opening balance as at 1 July 2011					
Balance carried forward from previous period	13,954			1,496	15,450
Adjusted opening balance	13,954	-	-	1,496	15,450
Comprehensive income					
Surplus (deficit) for the period	(650)	-	-	-	(650)
Total comprehensive income recognised directly in equity	(650)	-	-	-	(650)
Transactions with owners					
<i>Contributions by owners</i>					
Appropriation (departmental capital budget)	-	-	-	3,029	3,029
Total transactions with owners	-	-	-	3,029	3,029
Estimated closing balance as at 30 June 2012	13,304	-	-	4,525	17,829

Prepared on Australian Accounting Standards basis.

Table 3.2.5: Departmental capital budget (DCB) statement

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
CAPITAL APPROPRIATIONS					
Capital budget - Bill 1 (DCB)	250	3,029	509	514	933
Total capital appropriations	250	3,029	509	514	933
Represented by:					
Purchase of non-financial assets	250	3,029	509	514	933
Total represented by	250	3,029	509	514	933
PURCHASE OF NON-FINANCIAL ASSETS					
Funded by capital appropriation - DCB	250	3,029	509	514	933
Funded by prior year equity injections	287	-	-	-	-
TOTAL	537	3,029	509	514	933
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	537	3,029	509	514	933
Total cash used to acquire assets	537	3,029	509	514	933

Prepared on Australian Accounting Standards basis.

Table 3.2.6: Statement of asset movements — departmental

	Buildings \$'000	Other infrastructure, plant & equipment \$'000	Intangibles \$'000	Total \$'000
As at 1 July 2011				
Gross book value	-	1,613	3,320	4,933
Accumulated depreciation/amortisation and impairment	-	987	2,939	3,926
Opening net book balance	-	626	381	1,007
Capital Asset Additions				
By purchase - appropriation ordinary annual services	-	129	2,900	3,029
Total asset additions	-	129	2,900	3,029
Other movements				
Depreciation/amortisation expense	-	250	400	650
Total other movements	-	250	400	650
As at 30 June 2012				
Gross book value	-	1,742	6,220	7,962
Accumulated depreciation/amortisation and impairment	-	1,237	3,339	4,576
Closing net book balance	-	505	2,881	3,386

Prepared on Australian Accounting Standards basis.

Table 3.2.7: Schedule of budgeted income and expenses administered on behalf of government (for the period ended 30 June)

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
INCOME ADMINISTERED ON BEHALF OF GOVERNMENT					
Revenue before re-measurements					
Non-taxation					
Interest	1,417,412	1,621,637	1,684,423	1,572,250	1,058,631
Total revenues before re-measurements	1,417,412	1,621,637	1,684,423	1,572,250	1,058,631
EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT					
Interest costs	9,286,392	11,631,510	12,611,710	12,850,810	12,598,710
Other	50	50	3,592	3,416	3,486
Total expenses before re-measurements	9,286,442	11,631,560	12,615,302	12,854,226	12,602,196
Operating result before re-measurements	(7,869,030)	(10,009,923)	(10,930,879)	(11,281,976)	(11,543,565)
Re-measurements					
Net market valuation gains (losses)	2,350,462	(267,700)	(183,400)	(96,300)	(24,600)
Total re-measurements	2,350,462	(267,700)	(183,400)	(96,300)	(24,600)
Net income	(5,518,568)	(10,277,623)	(11,114,279)	(11,378,276)	(11,568,165)

Prepared on Australian Accounting Standards basis.

Table 3.2.8: Schedule of budgeted assets and liabilities administered on behalf of government (as at 30 June)

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Cash and cash equivalents	622	622	622	622	622
Receivables	2,620,145	2,543,300	2,463,851	2,381,819	2,296,883
Investments (s39 FMA Act)	24,960,400	29,769,200	27,667,400	23,672,200	21,177,600
Total assets administered on behalf of government	27,581,167	32,313,122	30,131,873	26,054,641	23,475,105
LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT					
Interest bearing liabilities					
Commonwealth Government Securities	200,588,000	234,898,600	236,522,500	239,150,400	238,353,200
Total liabilities administered on behalf of government	200,588,000	234,898,600	236,522,500	239,150,400	238,353,200

Prepared on Australian Accounting Standards basis.

**Table 3.2.9: Schedule of budgeted administered cash flows
(for the period ended 30 June)**

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
OPERATING ACTIVITIES					
Cash received					
Interest	1,403,897	1,584,010	1,676,023	1,562,717	1,043,103
Total cash received	1,403,897	1,584,010	1,676,023	1,562,717	1,043,103
Cash used					
Interest paid	9,504,166	11,064,024	12,325,554	12,155,046	11,973,155
Grants	50	50	50	50	50
Total cash used	9,504,216	11,064,074	12,325,604	12,155,096	11,973,205
Net cash from or (used by) operating activities	(8,100,319)	(9,480,064)	(10,649,581)	(10,592,379)	(10,930,102)
INVESTING ACTIVITIES					
Cash received					
Repayments of advances	95,725	97,872	100,249	102,565	105,164
Total cash received	95,725	97,872	100,249	102,565	105,164
Net cash from or (used by) investing activities	95,725	97,872	100,249	102,565	105,164
FINANCING ACTIVITIES					
Cash received					
Proceeds from borrowing	127,060,400	215,270,600	159,161,400	158,790,600	164,096,200
Investment redemptions	275,662,700	162,549,900	166,180,100	184,173,200	107,415,800
Other	6,223,000	-	-	-	-
Total cash received	408,946,100	377,820,500	325,341,500	342,963,800	271,512,000
Cash used					
Repayments of borrowings	81,860,015	182,134,100	158,304,100	157,058,900	165,581,900
Investments	269,869,000	167,343,900	164,092,500	180,185,500	104,925,900
Other	6,223,000	-	-	-	-
Total cash used	357,952,015	349,478,000	322,396,600	337,244,400	270,507,800
Net cash from or (used by) financing activities	50,994,085	28,342,500	2,944,900	5,719,400	1,004,200
Net increase or (decrease) in cash held	42,989,491	18,960,308	(7,604,432)	(4,770,414)	(9,820,738)
Cash at beginning of reporting period	622	622	622	622	622
Cash from Official Public Account for: appropriations	368,813,331	361,603,474	335,411,804	349,889,996	283,027,305
Cash to Official Public Account for: receipts	(411,802,822)	(380,563,782)	(327,807,372)	(345,119,582)	(273,206,567)
Cash at end of reporting period	622	622	622	622	622

Prepared on Australian Accounting Standards basis.

Table 3.2.10: Schedule of administered capital budget

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
CAPITAL APPROPRIATIONS					
Special appropriations	357,952,015	349,478,000	322,396,600	337,244,400	270,507,800
Total capital appropriations	357,952,015	349,478,000	322,396,600	337,244,400	270,507,800
Represented by:					
Repayments of borrowings and purchase of investments	357,952,015	349,478,000	322,396,600	337,244,400	270,507,800
Total represented by	357,952,015	349,478,000	322,396,600	337,244,400	270,507,800

Prepared on Australian Accounting Standards basis.

3.2.4 Notes to the financial statements

The financial statements contain estimates prepared in accordance with the requirements of the Australian Government's financial budgeting and reporting framework, including Australian Accounting Standards and Statements of Accounting Concepts, as well as specific guidelines issued by the Department of Finance and Deregulation.

The departmental financial statements have been prepared in accordance with the historical cost convention, except for infrastructure, plant and equipment assets and employee entitlements.

With exception to loans to the States and the Northern Territory, the administered financial statements have been prepared on a fair value basis in accordance with Australian Accounting Standards. Loans to the States and the Northern Territory are measured on an amortised cost basis, after initial recognition at fair value.

Fair value is synonymous with market value and represents the estimated exchange equivalent price using relevant inputs from reference markets and valuation techniques. Fair value is determined on the presumption of normal market conditions and that the reporting entity is not undertaking transactions on adverse terms.

Budgeted departmental and administered financial statements

Under the Australian Government's accrual budgeting framework, transactions that agencies control (agency transactions) are separately budgeted for and reported from transactions agencies do not have control over (administered transactions). This ensures that agencies are only held fully accountable for the transactions over which they have control.

Agency assets, liabilities, revenue and expenses are those which are controlled by the agency. Agency expenses include employee and supplier expenses and other

administrative costs, which are incurred by the agency in providing its goods and services to government.

Administered assets, liabilities, revenues and expenses are those which are managed on behalf of the Australian Government according to set government directions. Administered expenses include interest incurred on Commonwealth Government Securities. Administered revenues include interest earned on housing agreement loans and interest on investments (including residential mortgage-backed securities).

Administered internal transactions

Administered transactions between the AOFM and other agencies within the general government sector (administered internal transactions) are not reported in the schedule of budgeted administered income and expenses or the schedule of budgeted administered assets and liabilities.

However, for the purposes of disclosing all cash flows through the AOFM's administered bank accounts, cash flows in the schedule of budgeted administered cash flows are reported inclusive of administered internal transactions.

Goods and services tax

Supplies provided by the AOFM are predominantly input taxed under *A New Tax System (Goods and Services Tax) Act 1999*.

Budgeted departmental comprehensive income statement

Appropriations

Under the net cash appropriation framework the AOFM receives an output appropriation to meet budgeted expenses (except depreciation). The output appropriation is recognised in revenue. Appropriations for capital purposes are not recognised in revenue.

Budgeted departmental balance sheet

Cash and undrawn appropriations

The estimated cash reserves and undrawn appropriations will be maintained to ensure that the AOFM is well placed to:

- settle employee liabilities as they fall due;
- fund future asset replacements; and
- repay liabilities.

Administered schedule of budgeted income and expenses

Non-taxation revenue — interest

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
Interest revenue					
Interest on housing agreements	158,018	153,637	149,123	144,450	139,631
Interest from investments	1,259,394	1,468,000	1,535,300	1,427,800	919,000
Total interest revenue	1,417,412	1,621,637	1,684,423	1,572,250	1,058,631

Expenses — interest costs

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
Interest costs					
Interest on Commonwealth Government Securities	9,286,392	11,631,510	12,611,710	12,850,810	12,598,710
Total interest costs	9,286,392	11,631,510	12,611,710	12,850,810	12,598,710

Net market valuation gains (losses)

Net market valuation gains (losses) represent the estimated unrealised fair value gains or losses on the financial asset and financial liability portfolio. This revaluation effect represents the change in financial exposures due to changes in market conditions and the passage of time.

In a passive 'issue and hold to maturity' strategy, such as that relating to the AOFM's debt issuance and management activities, the revaluation effect will net to zero over the life of a financial instrument.

Administered schedule of budgeted assets and liabilities

Financial assets — investments

The AOFM manages the cash balances in the Official Public Account and invests surplus funds in deposits, fixed interest securities and money market securities. Estimates of the fair value of these asset holdings are disclosed as administered investments. The asset holdings of the Future Fund and other government agencies are not included in these estimates.

Investments also include residential mortgage-backed securities.

Interest bearing liabilities — Commonwealth Government Securities

Interest bearing liabilities represent the fair value of Commonwealth Government Securities on issue.

	Estimated actual 2010-11 \$'000	Budget estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000
Commonwealth Government Securities					
Treasury Bonds	164,233,034	201,565,230	200,817,682	201,759,207	199,359,798
Treasury Indexed Bonds	19,384,224	22,341,203	24,712,763	26,396,295	27,998,471
Treasury Notes	16,954,311	10,975,690	10,975,690	10,978,550	10,978,550
Other	16,431	16,477	16,365	16,348	16,381
Total Commonwealth Government Securities	200,588,000	234,898,600	236,522,500	239,150,400	238,353,200