

AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

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AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Section 1: Agency overview and resources

1.1 STRATEGIC DIRECTION STATEMENT

The Australian Office of Financial Management (AOFM) is responsible for the management of Australian Government debt and certain financial assets. It issues Treasury Bonds, Treasury Indexed Bonds and Treasury Notes, manages the Government's cash balances and invests from time to time in high quality financial assets including term deposits and investment grade fixed interest investments.

The AOFM aims to meet the Government's financing needs in a cost-effective manner subject to acceptable risk and to meet the Government's policy objectives of maintaining liquid and efficient Bond and Bond futures markets. Treasury Bonds are the main issuance instrument used by the AOFM. The use of Treasury Indexed Bonds facilitates the diversification of the investor base by tapping into additional sources of investor demand.

In managing the Government's cash balances, the AOFM aims to minimise the net cost of funding while ensuring that the Government is able to meet its financial obligations when they fall due. Treasury Notes and financial assets are used to manage the Government's within-year financing task.

The AOFM manages the Government's holdings of highly rated residential mortgage-backed securities acquired between 2008-09 and 2012-13 in accordance with the Treasurer's directions.

1.2 AGENCY RESOURCE STATEMENT

Table 1.1 shows the total resources for AOFM.

Table 1.1: Australian Office of Financial Management resource statement — Budget estimates for 2013-14 as at Budget May 2013

	Estimate of prior year amounts available in 2013-14 \$'000	+	Proposed at Budget 2013-14 \$'000	=	Total estimate 2013-14 \$'000	Actual available appropriation 2012-13 \$'000
Ordinary annual services						
Departmental						
Prior year departmental appropriation	27,056	⁴	-		27,056	
Departmental appropriation ³	-		11,893	¹	11,893	11,815
Receipts from other sources (s31)	-		828	²	828	828
Total departmental	27,056		12,721		39,777	12,643
Administered expenses						
Outcome 1			10	¹	10	10
Total ordinary annual services	A 27,056		12,731		39,787	12,653
Other services						
Departmental non-operating						
Equity injections	662		-		662	-
Total other services	B 662		-		662	-
Total available annual appropriations (A+B)	27,718		12,731		40,449	12,653
Special appropriations expenses						
<i>Commonwealth Inscribed Stock Act 1911</i>	-		12,456,587		12,456,587	12,209,424
<i>Financial Agreement Act 1994</i>	-		22		22	22
<i>Loans Securities Act 1919</i>	-		668		668	806
Subtotal	-		12,457,277		12,457,277	12,210,252
Special appropriations capital						
<i>Commonwealth Inscribed Stock Act 1911</i>	-		54,511,013		54,511,013	87,322,348
<i>Financial Management and Accountability Act 1997</i>	-		229,369,814		229,369,814	766,131,180
Subtotal	-		283,880,827		283,880,827	853,453,528
Total special appropriations	C -		296,338,104		296,338,104	865,663,780

Table 1.1: Australian Office of Financial Management resource statement — Budget estimates for 2012-13 as at Budget May 2012 (continued)

	Estimate of prior year amounts available in 2013-14 \$'000	+	Proposed at Budget 2013-14 \$'000	=	Total estimate 2013-14 \$'000	Actual available appropriation 2012-13 \$'000
Total appropriations excluding special accounts	27,718		296,350,835		296,378,553	865,676,433
Special accounts						
Opening balance ⁵	657		-		657	-
Total special account	D 657		-		657	-
Total net resourcing for the AOFM (A+B+C+D)	28,375		296,350,835		296,379,210	865,676,433

1. Appropriation Bill (No. 1) 2013-14.
2. Receipts received under section 31 (s31) of the *Financial Management and Accountability Act 1997*.
3. Includes \$0.4 million in 2013-14 for the Departmental Capital Budget (also refer to Table 3.2.5).
4. Estimated adjusted balance carried forward from previous year for annual appropriations.
5. Estimated opening balance for special accounts. For further detail on special accounts see Table 3.1.2.

1.3 BUDGET MEASURES

Budget measures relating to the AOFM are summarised below.

Table 1.2: Australian Office of Financial Management 2013-14 Budget measures

	Program	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000
Expense measures						
Commonwealth debt management – savings						
Departmental expenses	1.1	-	(2,183)	(2,210)	(2,240)	(2,219)
Targeted savings – public service efficiencies ¹						
Departmental expenses	1.1	(52)	(55)	(54)	(54)	(51)
Total expense measures		(52)	(2,238)	(2,264)	(2,294)	(2,270)

¹ This measure was included as a cross portfolio measure in the *Mid-Year Economic and Fiscal Outlook 2012-13*.

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, program deliverables and program 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 monitoring, financial reporting, transaction settlement, debt administration, regular communication with investors, monitoring of market conditions and liaison with market participants.

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. The composition and maturity of debt issuance will remain flexible to achieve an appropriate balance between market efficiency, managing investor demand, 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 balances, the AOFM will continue to issue Treasury Notes and make short-term term deposits with the Reserve Bank of Australia. The AOFM may also from time to time invest in fixed interest investments and may raise funds by entering into repurchase agreements using its fixed interest investments as collateral.

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.

Outcome Expense Statement

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

Table 2.1: Budgeted expenses for Outcome 1

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	2012-13	2013-14
	Estimated actual expenses \$'000	Estimated expenses \$'000
Program 1.1: Australian Office of Financial Management		
Departmental expenses		
Departmental appropriation	10,237	12,313
Expenses not requiring appropriation in budget year	803	803
Administered expenses		
Ordinary annual services (Appropriation Bill No. 1)	10	10
Special appropriations		
<i>Commonwealth Inscribed Stock Act 1911</i>	12,209,424	12,456,587
<i>Financial Agreement Act 1994</i>	22	22
<i>Loans Securities Act 1919</i>	806	668
Total expenses for Outcome 1	12,221,302	12,470,403
	2012-13	2013-14
Average staffing level (number)	41	45

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 and maintain liquidity in the Treasury Bond and Treasury Bond futures markets.

Program expenses

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

Table 2.2: Program expenses

	2012-13 Revised budget \$'000	2013-14 Budget \$'000	2014-15 Forward year 1 \$'000	2015-16 Forward year 2 \$'000	2016-17 Forward year 3 \$'000
Annual departmental expenses:					
Departmental items	11,040	13,116	13,199	13,302	13,463
Annual administered expenses:					
Administered item	10	10	10	10	10
Special Appropriations:					
<i>Commonwealth Inscribed</i>					
<i>Stock Act 1911</i>	12,209,424	12,456,587	12,733,477	12,902,372	12,890,129
<i>Financial Agreement Act 1994</i>	22	22	22	22	22
<i>Loans Securities Act 1919</i>	806	668	670	672	550
Total program expenses	12,221,302	12,470,403	12,747,378	12,916,378	12,904,174

Program deliverables

The AOFM has the following key deliverables:

- issue Treasury Bonds, Treasury Indexed Bonds and Treasury Notes; and
- manage the Official Public Account balance.

Program key performance indicators

The AOFM has the following key performance indicators:

- debt issuance;
 - volume and efficiency of issuance; and
 - meeting the planned debt issuance program.

- 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
 - only using the overdraft facility with the Reserve Bank of Australia to cover unexpected events.
- encourage investors' take up of Commonwealth Government Securities by intermediaries and investors;
 - liaise with the CGS investor community to improve investor understanding of the CGS market through face-to-face meetings and conference presentations.
- 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 budget year 2013-14. It explains how budget plans are incorporated into the financial statements and provides further details of the reconciliation between appropriations, program expenses, movements in administered funds and special accounts.

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 2013-14 2012-13	Receipts 2013-14 2012-13	Payments 2013-14 2012-13	Adjustments 2013-14 2012-13	Closing balance 2013-14 2012-13
	Outcome	\$'000	\$'000	\$'000	\$'000	\$'000
Debt Retirement Reserve Trust	1	657	-	-	-	657
Account		657	-	-	-	657
Total special accounts						
2012-13 Budget estimate		657	-	-	-	657
Total special accounts						
2011-12 estimated actual		657	-	-	-	657

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 and Victoria. 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 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. 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 AOFM's specialist debt management systems, both for development and replacement, represents the majority of this expenditure. Expected capital expenditure on specialist debt management systems is forecast to occur in 2013-14.

Administered

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

Assets administered on behalf of the Government include investments in residential mortgage-backed securities which were made in accordance with the Government's policy to support competition in lending for housing and small business. 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: Comprehensive income statement (Showing Net Cost of Services) (for the period ended 30 June)

	Estimated actual 2012-13 \$'000	Budget estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000
EXPENSES					
Employee benefits	6,755	7,625	7,854	8,090	8,332
Supplier	3,785	4,991	4,845	4,712	4,631
Depreciation and amortisation	500	500	500	500	500
Total expenses	11,040	13,116	13,199	13,302	13,463
LESS:					
OWN-SOURCE INCOME					
Sale of goods and rendering of services	1,131	1,131	1,131	1,131	1,131
Total own-source income	1,131	1,131	1,131	1,131	1,131
Net cost of (contribution by) services	9,909	11,985	12,068	12,171	12,332
Appropriation revenue	11,409	11,485	11,568	11,671	11,832
Surplus (deficit) attributable to the Australian Government	1,500	(500)	(500)	(500)	(500)
Note: Impact of Net Cash Appropriation Arrangements					
	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000
Total Comprehensive Income (loss) less depreciation/amortisation expenses previously funded through revenue appropriations	2,000	-	-	-	-
plus depreciation/amortisation expenses previously funded through revenue appropriations	(500)	(500)	(500)	(500)	(500)
Total Comprehensive Income (loss) - as per the Statement of Comprehensive Income	1,500	(500)	(500)	(500)	(500)

Prepared on Australian Accounting Standards basis.

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

	Estimated actual 2012-13 \$'000	Budget estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000
ASSETS					
Financial assets					
Cash and equivalents	100	100	100	100	100
Trade and other receivables ¹	27,746	24,892	24,939	24,987	25,037
Total financial assets	27,846	24,992	25,039	25,087	25,137
Non-financial assets					
Infrastructure, plant and equipment	586	614	1,154	1,466	1,793
Intangibles	159	2,939	2,639	2,573	2,507
Other	57	57	57	57	57
Total non-financial assets	802	3,610	3,850	4,096	4,357
Total assets	28,648	28,602	28,889	29,183	29,494
LIABILITIES					
Provisions					
Employees	2,028	2,074	2,121	2,169	2,219
Other	136	136	136	136	136
Total provisions	2,164	2,210	2,257	2,305	2,355
Payables					
Suppliers	332	332	332	332	332
Total payables	332	332	332	332	332
Total liabilities	2,496	2,542	2,589	2,637	2,687
Net assets	26,152	26,060	26,300	26,546	26,807
EQUITY					
Contributed equity	4,931	5,339	6,079	6,825	7,586
Retained surpluses	21,221	20,721	20,221	19,721	19,221
Total equity	26,152	26,060	26,300	26,546	26,807
Current assets	3,185	285	285	285	285
Non-current assets	25,463	28,317	28,604	28,898	29,209
Current liabilities	940	954	968	983	998
Non-current liabilities	1,556	1,588	1,621	1,654	1,689

1. Includes undrawn appropriations.
Prepared on Australian Accounting Standards basis.

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

	Estimated actual 2012-13 \$'000	Budget estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	828	828	828	828	828
Appropriations	9,389	14,339	11,521	11,623	11,782
Total cash received	10,217	15,167	12,349	12,451	12,610
Cash used					
Employees	6,589	7,579	7,807	8,042	8,282
Suppliers	3,628	4,688	4,542	4,409	4,328
Total cash used	10,217	12,267	12,349	12,451	12,610
Net cash from or (used by) operating activities	-	2,900	-	-	-
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment and intangibles	406	3,308	740	746	761
Total cash used	406	3,308	740	746	761
Net cash from or (used by) investing activities	(406)	(3,308)	(740)	(746)	(761)
FINANCING ACTIVITIES					
Cash received					
Contributed equity	406	408	740	746	761
Total cash received	406	408	740	746	761
Net cash from or (used by) financing activities	406	408	740	746	761
Net increase or (decrease) in cash held	-	-	-	-	-
Cash at the beginning of the reporting period	100	100	100	100	100
Cash at the end of the reporting period	100	100	100	100	100

Prepared on Australian Accounting Standards basis.

Table 3.2.4: Departmental statement of changes in equity — summary of movement (Budget year 2013-14)

	Retained surpluses \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Contributed equity/ capital \$'000	Total equity \$'000
Opening balance as at 1 July 2013					
Balance carried forward from previous period	21,221	-	-	4,931	26,152
Adjusted opening balance	21,221	-	-	4,931	26,152
Comprehensive income					
Surplus (deficit) for the period	(500)	-	-	-	(500)
Total comprehensive income recognised directly in equity	(500)	-	-	-	(500)
Transactions with owners					
<i>Contributions by owners</i>					
Appropriation (departmental capital budget)	-	-	-	408	408
Total transactions with owners	-	-	-	408	408
Estimated closing balance as at 30 June 2014	20,721	-	-	5,339	26,060

Prepared on Australian Accounting Standards basis.

Table 3.2.5: Departmental capital budget (DCB) statement

	Estimated actual 2012-13 \$'000	Budget estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000
NEW CAPITAL APPROPRIATIONS					
Capital budget - Bill 1 DCB	406	408	740	746	761
Total new capital appropriations	406	408	740	746	761
Provided for:					
Purchase of non-financial assets	406	408	740	746	761
Total Items	406	408	740	746	761
PURCHASE OF NON-FINANCIAL ASSETS					
Funded by capital appropriation - DCB	406	3,308	740	746	761
Funded by prior year equity injections	-	-	-	-	-
TOTAL	406	3,308	740	746	761
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	406	3,308	740	746	761
Total cash used to acquire assets	406	3,308	740	746	761

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 2013				
Gross book value	-	1,579	3,505	5,084
Accumulated depreciation/amortisation and impairment	-	993	3,346	4,339
Opening net book balance	-	586	159	745
Capital Asset Additions/Disposals				
By purchase - appropriation ordinary annual services	-	228	3,080	3,308
Disposals - gross value	-	-	-	-
Total asset additions/disposals	-	228	3,080	3,308
Other movements				
Depreciation/amortisation expense	-	200	300	500
Disposals - accumulated depreciation/amortisation	-	-	-	-
Total other movements	-	200	300	500
As at 30 June 2014				
Gross book value	-	1,807	6,585	8,392
Accumulated depreciation/amortisation and impairment	-	1,193	3,646	4,839
Closing net book balance	-	614	2,939	3,553

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 2012-13 \$'000	Budget estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000
EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT					
Grants	22	22	22	22	22
Interest costs	12,199,740	12,452,765	12,733,157	12,902,054	12,889,689
Other	10,500	4,500	1,000	1,000	1,000
Total expenses before re-measurements	12,210,262	12,457,287	12,734,179	12,903,076	12,890,711
LESS:					
OWN-SOURCE INCOME					
Own-source revenue					
Revenue before re-measurements					
Non-taxation revenue					
Interest	1,115,907	1,020,516	847,260	830,182	803,281
Total revenues before re-measurements	1,115,907	1,020,516	847,260	830,182	803,281
Operating result before re-measurements	(11,094,355)	(11,436,771)	(11,886,919)	(12,072,894)	(12,087,430)
Re-measurements					
Net market valuation gains (losses)	3,616,413	2,924,859	2,369,676	1,867,726	1,549,704
Total re-measurements	3,616,413	2,924,859	2,369,676	1,867,726	1,549,704
Net income	(7,477,942)	(8,511,912)	(9,517,243)	(10,205,168)	(10,537,726)

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 2012-13 \$'000	Budget estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Cash and cash equivalents	622	622	622	622	622
Receivables	2,461,618	2,379,586	2,294,650	2,207,191	2,116,970
Investments (s39 FMA Act)	27,185,559	27,472,960	25,919,698	24,560,483	29,284,517
Total assets administered on behalf of government	29,647,799	29,853,168	28,214,970	26,768,296	31,402,109
LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT					
Interest bearing liabilities					
Commonwealth Government					
Securities	292,852,238	321,255,823	345,423,919	356,675,222	370,336,327
Total liabilities administered on behalf of government	292,852,238	321,255,823	345,423,919	356,675,222	370,336,327
Net assets/(liabilities)	(263,204,439)	(291,402,655)	(317,208,949)	(329,906,926)	(338,934,218)

Prepared on Australian Accounting Standards basis.

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

	Estimated actual 2012-13 \$'000	Budget estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000
OPERATING ACTIVITIES					
Cash received					
Interest	1,085,687	1,000,855	828,359	812,989	779,286
Total cash received	1,085,687	1,000,855	828,359	812,989	779,286
Cash used					
Interest paid	12,674,067	13,173,754	14,064,999	16,118,259	15,062,118
Grants	22	22	22	22	22
Total cash used	12,674,089	13,173,776	14,065,021	16,118,281	15,062,140
Net cash from or (used by) operating activities	(11,588,402)	(12,172,921)	(13,236,662)	(15,305,292)	(14,282,854)
INVESTING ACTIVITIES					
Cash received					
Repayments of advances	100,249	102,565	105,164	107,330	109,692
Total cash received	100,249	102,565	105,164	107,330	109,692
Net cash from or (used by) investing activities	100,249	102,565	105,164	107,330	109,692
FINANCING ACTIVITIES					
Cash received					
Proceeds from borrowing	114,298,798	86,576,302	53,967,308	52,081,165	76,498,114
Investment redemptions	764,681,144	229,082,249	188,073,084	212,950,790	224,821,683
Total cash received	878,979,942	315,658,551	242,040,392	265,031,955	301,319,797
Cash used					
Repayments of borrowings	87,322,348	54,511,013	26,098,000	35,746,649	59,105,915
Investments made	766,131,180	229,369,814	186,521,842	211,594,535	229,540,887
Total cash used	853,453,528	283,880,827	212,619,842	247,341,184	288,646,802
Net cash from or (used by) financing activities	25,526,414	31,777,724	29,420,550	17,690,771	12,672,995
Net increase or (decrease) in cash held	14,038,261	19,707,368	16,289,052	2,492,809	(1,500,167)
Cash at beginning of reporting period	622	622	622	622	622
Cash from Official Public Account for: appropriations	866,624,022	297,622,026	227,163,301	263,922,150	303,981,286
Cash to Official Public Account for: receipts	(880,662,283)	(317,329,394)	(243,452,353)	(266,414,959)	(302,481,119)
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 2012-13 \$'000	Budget estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000
NEW CAPITAL APPROPRIATIONS					
Special appropriations	853,453,528	283,880,827	212,619,842	247,341,184	288,646,802
Total new capital appropriations	853,453,528	283,880,827	212,619,842	247,341,184	288,646,802
Provided for:					
Repayments of borrowings and purchase of investments	853,453,528	283,880,827	212,619,842	247,341,184	288,646,802
Total Items	853,453,528	283,880,827	212,619,842	247,341,184	288,646,802

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 on an accrual basis and are in accordance with the historical cost convention, except for infrastructure, plant and equipment assets and employee entitlements.

With the exception of 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, revenue 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.

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.

The AOFM also receives a capital appropriation for the replacement of infrastructure, plant and equipment and intangibles. The capital appropriation is not recognised in revenue. It is recognised as contributed equity in the departmental balance sheet in the year the appropriation takes effect.

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 2012-13 \$'000	Budget estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000
Interest revenue					
Interest on housing agreements	149,123	144,450	139,631	134,633	129,494
Interest from investments	966,784	876,066	707,629	695,549	673,787
Total interest revenue	1,115,907	1,020,516	847,260	830,182	803,281

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. The 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 and fixed interest securities. Investments also include holdings of residential mortgage-backed 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.

Interest bearing liabilities — Commonwealth Government Securities

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

	Estimated actual 2012-13 \$'000	Budget estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000
Commonwealth Government Securities (at fair value)					
Treasury Bonds	258,864,942	286,913,181	305,405,101	316,657,959	319,515,563
Treasury Indexed Bonds	28,976,168	34,322,245	39,998,827	39,997,676	43,815,610
Treasury Notes	4,990,362	-	-	-	6,991,110
Other	20,766	20,397	19,991	19,587	14,044
Total Commonwealth Government Securities (at fair value)	292,852,238	321,255,823	345,423,919	356,675,222	370,336,327

