

AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Section 1: Agency overview and resources	109
1.1 Strategic direction	109
1.2 Agency resource statement	109
1.3 Budget measures.....	111
Section 2: Outcomes and planned performance	112
2.1 Outcomes and performance information	112
Section 3: Explanatory tables and budgeted financial statements	116
3.1 Explanatory tables	116
3.2 Budgeted financial statements	117

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 active markets in them and in Bond futures, 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.

In October 2009 the AOFM recommenced issuance of Treasury Indexed Bonds to widen the range of debt instruments to meet the Government's funding needs. This allowed the AOFM to diversify risk and tap additional sources of investor demand.

Treasury Notes assist with the management of the Government's within-year financing task. The AOFM also uses its holdings of short-term financial assets in this task.

Subject to market conditions, in 2010-11 the AOFM will continue to acquire residential mortgage-backed securities in accordance with the terms of the extended program announced by the Government in November 2009.

1.2 AGENCY RESOURCE STATEMENT

Table 1.1 shows the total resources from all origins. 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 2010-11 as at Budget May 2010

	Estimate of prior year amounts available in 2010-11 \$'000	Proposed at Budget 2010-11 \$'000	Total estimate 2010-11 \$'000	Actual available appropriation 2009-10 \$'000
Ordinary annual services				
Departmental				
Prior year departmental carried forward	11,383 ⁴	-	11,383	-
Departmental appropriation ³	-	16,146 ¹	16,146	12,569
Receipts from other sources (s31)	-	828 ²	828	828
Total departmental	11,383	16,974	28,357	13,397
Administered expenses				
Outcome 1	-	10 ¹	10	10
Total ordinary annual services A	11,383	16,984	28,367	13,407
Other services				
Departmental non-operating				
Equity injections	949	-	949	-
Total other services B	949	-	949	-
Total available annual appropriations (A+B)	12,332	16,984	29,316	13,407
Special appropriations expenses				
<i>Commonwealth Inscribed Stock Act 1911</i>	-	9,605,000	9,605,000	6,513,262
<i>Loans Securities Act 1919</i>	-	800	800	45,900
<i>Financial Agreement Act 1994</i>	-	50	50	-
Subtotal	-	9,605,850	9,605,850	6,559,162
Special appropriations capital				
<i>Commonwealth Inscribed Stock Act 1911</i>	-	225,138,500	225,138,500	48,201,208
<i>Financial Management and Accountability Act 1997</i>	-	142,752,000	142,752,000	315,388,600
Subtotal	-	367,890,500	367,890,500	363,589,808
Total special appropriations C	-	377,496,350	377,496,350	370,148,970
Total appropriations excluding special accounts	12,332	377,513,334	377,525,666	370,162,377
Special accounts				
Opening balance ⁵	546	-	546	-
Total special account D	546	-	546	-
Total net resourcing for the AOFM (A+B+C+D)	12,878	377,513,334	377,526,212	370,162,377

1. Appropriation Bill (No. 1) 2010-11.

2. Receipts received under s31 of the *Financial Management and Accountability Act 1997*.

3. Includes \$0.3 million in 2010-11 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

AOFM does not have any Budget measures for 2010-11.

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 together with its program, the performance indicators and targets used to assess and monitor the performance of the AOFM in achieving government outcomes.

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

The AOFM's Outcome statement has changed from that presented in the 2009-10 Portfolio Budget Statements. The change was made to recognise the broad impact of government debt and financial assets on the operation of the Australian economy and financial markets, as well as in funding government activities.

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 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, 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 November 2009 the Government extended its program of investing in residential mortgage-backed securities to support competition in lending for housing. The AOFM will invest up to an additional \$8 billion (bringing the total program to \$16 billion), subject to market conditions. An additional objective of the extended program is to provide support for lending to small business, through participating lenders using some of the proceeds received for lending to small business.

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 1 Budgeted resources

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

Table 2.1: Budgeted resources for Outcome 1

	2009-10 Estimated actual resources \$'000	2010-11 Estimated resources \$'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 items		
Ordinary annual services (Appropriation Bill No. 1)	12,569	16,146
Revenues from independent sources (s31)	828	828
Administered expenses		
Ordinary annual services (Appropriation Bill No. 1)	10	10
Special appropriations		
<i>Commonwealth Inscribed Stock Act 1911</i>	6,513,262	9,605,000
<i>Loans Securities Act 1919</i>	45,900	800
<i>Financial Agreement Act 1994</i>	-	50
Administered capital		
Special appropriations:		
<i>Commonwealth Inscribed Stock Act 1911</i>	48,201,208	225,138,500
<i>Financial Management and Accountability Act 1997</i>	315,388,600	142,752,000
Total resources for Outcome 1	370,162,377	377,513,334
	2009-10	2010-11
Average staffing level (number)	37	42

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 support the efficiency of Treasury Bond, Treasury Bond futures and residential mortgage-backed securities markets.

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

	2009-10 Revised budget \$'000	2010-11 Budget \$'000	2011-12 Forward year 1 \$'000	2012-13 Forward year 2 \$'000	2013-14 Forward year 3 \$'000
Annual departmental expenses					
Departmental items	16,283	17,435	13,291	13,602	10,037
Total departmental expenses	16,283	17,435	13,291	13,602	10,037

Note: Administered expenses are shown in Table 3.2.7.

Program deliverables

The AOFM has the following deliverables:

- issue Treasury Bonds, Treasury Indexed Bonds and Treasury Notes;
- invest in residential mortgage-backed securities; 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,
 - monitoring issue yields against secondary market yields,
 - monitoring the range of accepted bids, and
 - monitoring the times covered 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 Treasury Bonds, Treasury Indexed Bonds and Treasury Notes,
 - provision of information to major investors and intermediaries; 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 budget year 2010-11. 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 2010-11 2009-10	Receipts 2010-11 2009-10	Payments 2010-11 2009-10	Adjustments 2010-11 2009-10	Closing balance 2010-11 2009-10
	Outcome	\$'000	\$'000	\$'000	\$'000	\$'000
Debt Retirement Reserve Trust	1	546	-	-	-	546
Account		546	-	-	-	546
Total special accounts						
2010-11 Budget estimate		546	-	-	-	546
Total special accounts						
2009-10 estimate actual		546	-	-	-	546

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 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.

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, 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 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
EXPENSES					
Employee benefits	5,168	6,724	7,132	7,570	5,998
Suppliers	10,665	10,261	5,509	5,382	3,689
Depreciation and amortisation	450	450	650	650	350
Total expenses	16,283	17,435	13,291	13,602	10,037
LESS:					
OWN-SOURCE INCOME					
Sale of goods and rendering of services	1,018	1,089	1,089	1,089	1,089
Total own-source income	1,018	1,089	1,089	1,089	1,089
Net cost of (contribution by) services	15,265	16,346	12,202	12,513	8,948
Appropriation revenue	12,569	15,896	11,552	11,863	8,598
Surplus (deficit) attributable to the Australian Government	(2,696)	(450)	(650)	(650)	(350)
Note: Reconciliation of operating result attributable to the agency					
	2009-10 \$'000	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000
Operating result attributable to the Australian Government	(2,696)	(450)	(650)	(650)	(350)
Plus non-appropriated expenses depreciation and amortisation expenses	-	450	650	650	350
Operating result attributable to the AOFM	(2,696)	-	-	-	-

Prepared on Australian Accounting Standards basis.

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

	Estimated actual 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
ASSETS					
Financial assets					
Cash and equivalents	88	85	76	56	63
Trade and other receivables ¹	12,410	12,660	12,910	13,210	13,361
Total financial assets	12,498	12,745	12,986	13,266	13,424
Non-financial assets					
Infrastructure, plant and equipment	555	505	255	5	205
Intangibles	177	27	2,627	2,727	2,678
Other	90	90	90	90	90
Total non-financial assets	822	622	2,972	2,822	2,973
Total assets	13,320	13,367	15,958	16,088	16,397
LIABILITIES					
Provisions					
Employees	1,466	1,713	1,954	2,234	2,392
Other	125	125	125	125	125
Total provisions	1,591	1,838	2,079	2,359	2,517
Payables					
Suppliers	230	230	230	230	230
Total payables	230	230	230	230	230
Total liabilities	1,821	2,068	2,309	2,589	2,747
Net assets	11,499	11,299	13,649	13,499	13,650
EQUITY					
Contributed equity	1,246	1,496	4,496	4,996	5,497
Retained surpluses	10,253	9,803	9,153	8,503	8,153
Total equity	11,499	11,299	13,649	13,499	13,650
Current assets	344	341	332	312	319
Non-current assets	12,976	13,026	15,626	15,776	16,078
Current liabilities	1,402	1,600	1,793	2,017	2,144
Non-current liabilities	419	468	516	572	603

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 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	1,018	1,089	1,089	1,089	1,089
Appropriations	17,046	15,646	11,302	11,563	8,447
Total cash received	18,064	16,735	12,391	12,652	9,536
Cash used					
Employees	4,947	6,477	6,891	7,290	5,840
Suppliers	10,665	10,261	5,509	5,382	3,689
Total cash used	15,612	16,738	12,400	12,672	9,529
Net cash from or (used by) operating activities	2,452	(3)	(9)	(20)	7
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	250	250	3,000	500	501
Total cash used	250	250	3,000	500	501
Net cash from or (used by) investing activities	(250)	(250)	(3,000)	(500)	(501)
FINANCING ACTIVITIES					
Cash received					
Contributed equity	-	250	3,000	500	501
Total cash received	-	250	3,000	500	501
Cash used					
Other ¹	2,177	-	-	-	-
Total cash used	2,177	-	-	-	-
Net cash from or (used by) financing activities	(2,177)	250	3,000	500	501
Net increase or (decrease) in cash held	25	(3)	(9)	(20)	7
Cash at the beginning of the reporting period	63	88	85	76	56
Cash at the end of the reporting period	88	85	76	56	63

1. 2009-10 reflects the return of unused depreciation funding associated with the implementation of the net cash appropriation arrangements.

Prepared on Australian Accounting Standards basis.

Table 3.2.4: Departmental statement of changes in equity — summary of movement (Budget year 2010-11)

	Retained surpluses \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Contributed equity/ capital \$'000	Total equity \$'000
Opening balance as at 1 July 2010					
Balance carried forward from previous period	10,253	-	-	1,246	11,499
Adjusted opening balance	10,253	-	-	1,246	11,499
Comprehensive income					
Surplus (deficit) for the period	(450)	-	-	-	(450)
Total comprehensive income recognised directly in equity	(450)	-	-	-	(450)
Transactions with owners					
<i>Contributions by owners</i>					
Appropriation (departmental capital budget)	-	-	-	250	250
Total transactions with owners	-	-	-	250	250
Estimated closing balance as at 30 June 2011	9,803	-	-	1,496	11,299

Prepared on Australian Accounting Standards basis.

Table 3.2.5: Departmental capital budget statement

	Estimated actual 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
CAPITAL APPROPRIATIONS					
Capital budget - Bill 1 (DCB)	-	250	3,000	500	501
Total equity injections	-	-	-	-	-
Total capital appropriations	-	250	3,000	500	501
Represented by:					
Purchase of non-financial assets	-	250	3,000	500	501
Total represented by	-	250	3,000	500	501
ACQUISITION OF NON-FINANCIAL ASSETS					
Funded by capital appropriation - DCB	-	250	3,000	500	501
Funded internally from departmental resources	250	-	-	-	-
TOTAL	250	250	3,000	500	501

Note: Under the net cash appropriation arrangements implemented as part of Operation Sunlight, agencies are no longer funded for depreciation, amortisation or makegood expenses. Funding for these expenses have been replaced with a Departmental Capital Budget (DCB).

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 2010				
Gross book value	-	1,391	3,018	4,409
less Accumulated depreciation/amortisation	-	836	2,841	3,677
Opening net book balance	-	555	177	732
Asset movements				
Additions	-	200	50	250
less Depreciation/amortisation expense	-	250	200	450
Total asset movements	-	(50)	(150)	(200)
As at 30 June 2011				
Gross book value	-	1,591	3,068	4,659
less Accumulated depreciation/amortisation	-	1,086	3,041	4,127
Closing net book balance	-	505	27	532

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 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
INCOME ADMINISTERED ON BEHALF OF GOVERNMENT					
Revenue before re-measurements					
Non-taxation					
Interest	1,406,303	1,501,518	1,612,337	1,398,023	1,316,250
Total revenues before re-measurements	1,406,303	1,501,518	1,612,337	1,398,023	1,316,250
EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT					
Interest costs	6,559,172	9,605,810	11,463,010	12,010,410	11,977,810
Other	54,200	50	50	50	50
Total expenses before re-measurements	6,613,372	9,605,860	11,463,060	12,010,460	11,977,860
Operating result before re-measurements	(5,207,069)	(8,104,342)	(9,850,723)	(10,612,437)	(10,661,610)
Re-measurements					
Net market valuation gains (losses)	810,886	(505,300)	(395,400)	(208,100)	(29,800)
Total re-measurements	810,886	(505,300)	(395,400)	(208,100)	(29,800)
Net income	(4,396,183)	(8,609,642)	(10,246,123)	(10,820,537)	(10,691,410)

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 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Cash and cash equivalents	622	622	622	622	622
Receivables	2,694,984	2,620,480	2,543,635	2,464,186	2,382,154
Investments (s39 FMA Act)	24,287,100	31,227,200	28,089,300	25,394,800	22,308,900
Total assets administered on behalf of government	26,982,706	33,848,302	30,633,557	27,859,608	24,691,676
LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT					
Interest bearing liabilities					
Commonwealth Government Securities	154,102,100	209,455,600	221,253,600	221,591,000	215,647,400
Total liabilities administered on behalf of government	154,102,100	209,455,600	221,253,600	221,591,000	215,647,400

Prepared on Australian Accounting Standards basis.

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

	Estimated actual 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
OPERATING ACTIVITIES					
Cash received					
Interest	1,542,777	1,526,997	1,595,510	1,390,423	1,302,517
Total cash received	1,542,777	1,526,997	1,595,510	1,390,423	1,302,517
Cash used					
Interest paid	6,034,310	9,326,010	10,982,910	11,413,310	11,034,510
Grants	-	50	50	50	50
Total cash used	6,034,310	9,326,060	10,982,960	11,413,360	11,034,560
Net cash from or (used by) operating activities	(4,491,533)	(7,799,063)	(9,387,450)	(10,022,937)	(9,732,043)
INVESTING ACTIVITIES					
Cash received					
Repayments of advances	93,515	95,725	97,872	100,249	102,565
Total cash received	93,515	95,725	97,872	100,249	102,565
Net cash from or (used by) investing activities	93,515	95,725	97,872	100,249	102,565
FINANCING ACTIVITIES					
Cash received					
Proceeds from borrowing	95,153,500	279,712,900	274,979,600	279,432,600	271,028,200
Investment redemptions	326,618,600	135,759,200	162,000,600	155,252,300	172,242,200
Other	(54,200)	-	-	-	-
Total cash received	421,717,900	415,472,100	436,980,200	434,684,900	443,270,400
Cash used					
Repayments of borrowings	48,201,208	225,138,500	264,055,000	279,898,400	277,949,000
Investments	315,388,600	142,752,000	158,869,000	152,573,000	169,159,000
Total cash used	363,589,808	367,890,500	422,924,000	432,471,400	447,108,000
Net cash from or (used by) financing activities	58,128,092	47,581,600	14,056,200	2,213,500	(3,837,600)
Net increase or (decrease) in cash held	53,730,074	39,878,262	4,766,622	(7,709,188)	(13,467,078)
Cash at beginning of reporting period	622	622	622	622	622
Cash from Official Public					
Account for:					
- appropriations	370,996,818	378,307,860	434,545,160	444,315,360	458,536,260
Cash to Official Public					
Account for:					
- receipts	(424,726,892)	(418,186,122)	(439,311,782)	(436,606,172)	(445,069,182)
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 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
CAPITAL APPROPRIATIONS					
Special appropriations	363,589,808	367,890,500	422,924,000	432,471,400	447,108,000
Total capital appropriations	363,589,808	367,890,500	422,924,000	432,471,400	447,108,000
Represented by:					
Repayments of borrowings and purchase of investments	363,589,808	367,890,500	422,924,000	432,471,400	447,108,000
Total represented by	363,589,808	367,890,500	422,924,000	432,471,400	447,108,000

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 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. It also includes debt issuance costs, including legal expenses and syndication fees, and registry fees on Commonwealth Government Securities.

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, interest on investments (including residential mortgage-backed securities) and interest from swaps.

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

Price of outputs appropriation estimates are not based on market price indicators. The agreed price of outputs appropriation is adjusted for wage cost indexation less an efficiency dividend.

For 2010-11, a new net cash framework applies, the net cash appropriation arrangements. Under these arrangements, the AOFM no longer receives funding for some non-cash expenses, such as depreciation, and receives asset replacement funding via a Departmental Capital Budget. The implementation of the new arrangements requires the return of unused depreciation funding as at 30 June 2010, being \$2.2 million for the AOFM.

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 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
Interest revenue					
Interest on housing agreements	162,258	158,018	153,637	149,123	144,450
Interest on swaps	85,847	-	-	-	-
Interest from investments	1,158,198	1,343,500	1,458,700	1,248,900	1,171,800
Total interest revenue	1,406,303	1,501,518	1,612,337	1,398,023	1,316,250

Expenses — interest costs

	Estimated actual 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
Interest costs					
Interest on Commonwealth Government Securities	6,514,072	9,605,810	11,463,010	12,010,410	11,977,810
Interest on swaps	45,100	-	-	-	-
Total interest costs	6,559,172	9,605,810	11,463,010	12,010,410	11,977,810

Net market valuation gains (losses)

Net market valuation gains (losses) represent the estimated unrealised fair value gains or losses on the 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.

Interest bearing liabilities — Commonwealth Government Securities

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

	Estimated actual 2009-10 \$'000	Budget estimate 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
Commonwealth Government Securities					
Treasury Bonds	127,607,000	165,022,000	173,978,000	170,013,000	161,230,000
Treasury Indexed Bonds	15,703,000	19,459,000	22,308,000	26,609,000	29,443,000
Treasury Notes	10,773,000	24,955,000	24,949,000	24,949,000	24,955,000
Other	19,100	19,600	18,600	20,000	19,400
Total Commonwealth Government Securities	154,102,100	209,455,600	221,253,600	221,591,000	215,647,400