

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 diversification of the investor base by tapping into additional sources of investor demand. The development of this market has also, at times, been used to facilitate development of the Treasury Bond market.

In managing the Government's cash balances, the AOFM aims to ensure that the Government is able to meet its financial obligations when they fall due, while seeking to minimise the net cost of funding. The issue of Treasury Notes is used to manage cash flow volatility arising from the Government's within-year financing task, while investment in financial assets helps to defray the cost of this 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. No assets have been added to the portfolio since April 2013.

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 2014-15 as at Budget May 2014

	Estimate of prior year amounts available in 2014-15 \$'000	+	Proposed at Budget 2014-15 \$'000	=	Total estimate 2014-15 \$'000		Actual available appropriation 2013-14 \$'000
Ordinary annual services							
Departmental							
Prior year departmental appropriation	25,563	⁴	-		25,563		-
Departmental appropriation ³	-		12,134	¹	12,134		11,887
Receipts from other sources (s31)	-		828	²	828		828
Total departmental	25,563		12,962		38,525		12,715
Administered expenses							
Outcome 1	-		10	¹	10		10
Total ordinary annual services	A 25,563		12,972		38,535		12,725
Other services							
Departmental non-operating							
Equity injections	-		-		-		-
Total other services	B -		-		-		-
Total available annual appropriations (A+B)	25,563		12,972		38,535		12,725
Special appropriations expenses							
<i>Commonwealth Inscribed Stock Act 1911</i>	-		14,707,384		14,707,384		13,452,773
<i>Financial Agreement Act 1994</i>	-		20		20		20
<i>Loans Securities Act 1919</i>	-		720		720		862
Subtotal	-		14,708,124		14,708,124		13,453,655
Special appropriations capital							
<i>Commonwealth Inscribed Stock Act 1911</i>	-		101,393,024		101,393,024		47,786,586
<i>Financial Management and Accountability Act 1997</i>	-		228,698,704		228,698,704		624,873,763
Subtotal	-		330,091,728		330,091,728		672,660,349
Total special appropriations	C -		344,799,852		344,799,852		686,114,004

Table 1.1: Australian Office of Financial Management resource statement — Budget estimates for 2014-15 as at Budget May 2014 (continued)

	Estimate of prior year amounts available in 2014-15 \$'000	+	Proposed at Budget 2014-15 \$'000	=	Total estimate 2014-15 \$'000	Actual available appropriation 2013-14 \$'000
Total appropriations excluding special accounts	25,563		344,812,824		344,838,387	686,126,729
Special accounts						
Opening balance ⁵	742		-		742	-
Total special account	D 742		-		742	-
Total net resourcing for the AOFM (A+B+C+D)	26,305		344,812,824		344,839,129	686,126,729

1. Appropriation Bill (No. 1) 2014-15.
2. Receipts received under section 31 (s31) of the *Financial Management and Accountability Act 1997*.
3. Includes \$0.7 million in 2014-15 for the departmental capital budget (also refer to Table 3.2.5).
4. Estimated adjusted balance carried forward from previous year.
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 2014-15 Budget measures

	2013-14	2014-15	2015-16	2016-17	2017-18
Programme	\$'000	\$'000	\$'000	\$'000	\$'000
Expense measures					
Efficiency Dividend - temporary increase in the rate ¹					
Departmental expenses	1.1	(124)	(279)	(436)	(436)
Efficiency Dividend - a further temporary increase of 0.25 per cent					
Departmental expenses	1.1	(29)	(58)	(87)	(87)
Public Service efficiencies ²					
Departmental expenses	1.1	(3)	(35)	(49)	(49)
Reforms to APS management and efficient procurement of agency software ¹					
Departmental expenses	1.1	(3)	(34)	(48)	(48)
South Australian Government housing stimulus assistance ¹					
Administered expenses	1.1	-	-	-	-
Total expense measures		(6)	(406)	(620)	(620)
Capital measures					
Efficiency Dividend - a further temporary increase of 0.25 per cent					
Departmental capital	1.1	(2)	(4)	(6)	(6)
Total capital measures		(2)	(4)	(6)	(6)
Revenue measures					
South Australian Government housing stimulus assistance ¹					
Administered revenue	1.1	(16,700)	(15,400)	(14,600)	(14,600)
Total revenue measures		(16,700)	(15,400)	(14,600)	(14,600)

1. This measure was included in the *Economic Statement 2013* and has not previously appeared in a portfolio statement.

2. This measure was included in Budget Paper No. 2, *Budget Measures 2013-14* and has not previously appeared in a portfolio statement.

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 on the Australian community arising from policy or regulatory actions by the Government. Australian Government programmes are the primary vehicle by which government agencies achieve the intended results of their outcome statements. Agencies are required to identify the programmes which contribute to government outcomes over the budget and forward years.

The outcome of AOFM's activities is described below, specifying the strategy, programme objective, programme deliverables and programme 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 intermediaries.

Debt issuance is directed to meeting the Government's Budget funding needs. Both Treasury Bonds and Treasury Indexed Bonds are issued to meet this objective. The composition and maturity of debt issuance will remain flexible to achieve an appropriate balance between the following considerations: domestic financial market efficiency, managing investor demand, refinancing risk and the costs of the debt portfolio faced by the Government.

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 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 (as provided for under the *Financial Management and Accountability Act 1997*) 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	2013-14 Estimated actual expenses \$'000	2014-15 Estimated expenses \$'000
Programme 1.1: Australian Office of Financial Management		
Departmental expenses		
Departmental appropriation	10,807	12,230
Expenses not requiring appropriation in budget year	803	803
Administered expenses		
Ordinary annual services (Appropriation Bill No. 1)	10	10
Expenses not requiring appropriation in budget year	188,571	-
Special appropriations		
<i>Commonwealth Inscribed Stock Act 1911</i>	13,452,771	14,707,384
<i>Financial Agreement Act 1994</i>	20	20
<i>Loans Securities Act 1919</i>	864	722
Total expenses for Outcome 1	13,653,846	14,721,169
Average staffing level (number)	42	43

Contributions to Outcome 1

Programme 1.1: Australian Office of Financial Management

Programme objective

Achievement of the Government's financing task in a cost-effective manner, subject to acceptable risk and promoting liquidity in the Treasury Bond, Treasury Indexed Bond and Treasury Bond futures markets.

Programme 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: Programme expenses

	2013-14 Revised budget \$'000	2014-15 Budget \$'000	2015-16 Forward year 1 \$'000	2016-17 Forward year 2 \$'000	2017-18 Forward year 3 \$'000
Annual departmental expenses:					
Departmental items	11,610	13,033	12,902	12,848	12,970
Annual administered expenses:					
Administered items	188,581	10	10	10	10
Special Appropriations:					
<i>Commonwealth Inscribed</i>					
<i>Stock Act 1911</i>	13,452,771	14,707,384	16,133,697	17,155,943	17,875,948
<i>Financial Agreement Act 1994</i>	20	20	20	20	20
<i>Loans Securities Act 1919</i>	864	722	724	588	-
Total programme expenses	13,653,846	14,721,169	16,147,353	17,169,409	17,888,948

Programme deliverables

The AOFM has the following key deliverables:

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

Programme key performance indicators

The AOFM has the following key performance indicators:

- debt issuance;
 - efficiency of issuance (through coverage and pricing ratios); and
 - meeting the planned debt issuance programme;

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- 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 take up of Commonwealth Government Securities by intermediaries and investors;
 - liaise with the Commonwealth Government Securities investor community to improve investor understanding of the Commonwealth Government Securities market and AOFM understanding of investor issues through face-to-face meetings and conference presentations; 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 2014-15. It explains how budget plans are incorporated into the financial statements and provides further details of the reconciliation between appropriations, programme 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 2014-15 2013-14	Receipts 2014-15 2013-14	Payments 2014-15 2013-14	Adjustments 2014-15 2013-14	Closing balance 2014-15 2013-14
	Outcome	\$'000	\$'000	\$'000	\$'000	\$'000
Debt Retirement Reserve Trust	1	742	-	-	-	742
Account		742	-	-	-	742
Total special accounts						
2014-15 Budget estimate		742	-	-	-	742
Total special accounts						
2013-14 estimated actual		742	-	-	-	742

Until 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 received free of charge.

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 AOFM's specialist debt management systems, both for development and replacement, represents the majority of this expenditure. Significant capital expenditure on specialist debt management systems is forecast to occur in 2013-14 and 2014-15.

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 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
EXPENSES					
Employee benefits	7,275	7,854	8,090	8,332	8,562
Supplier	3,835	4,679	4,312	4,016	3,908
Depreciation and amortisation	500	500	500	500	500
Total expenses	11,610	13,033	12,902	12,848	12,970
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	10,479	11,902	11,771	11,717	11,839
Appropriation revenue	11,479	11,402	11,271	11,217	11,339
Surplus (deficit) attributable to the Australian Government	1,000	(500)	(500)	(500)	(500)
Note: Impact of Net Cash Appropriation Arrangements					
	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000	2017-18 \$'000
Total Comprehensive Income (loss) less depreciation/amortisation expenses previously funded through revenue appropriations	1,500	-	-	-	-
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	1,000	(500)	(500)	(500)	(500)

Prepared on Australian Accounting Standards basis.

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

	Estimated actual 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
ASSETS					
Financial assets					
Cash and equivalents	100	100	100	100	100
Trade and other receivables ¹	25,605	24,410	23,958	24,008	24,063
Total financial assets	25,705	24,510	24,058	24,108	24,163
Non-financial assets					
Infrastructure, plant and equipment	616	648	1,440	1,734	2,038
Intangibles	1,191	2,633	2,567	2,501	2,435
Other	84	84	84	84	84
Total non-financial assets	1,891	3,365	4,091	4,319	4,557
Total assets	27,596	27,875	28,149	28,427	28,720
LIABILITIES					
Provisions					
Employees	2,077	2,124	2,172	2,222	2,277
Other	137	137	137	137	137
Total provisions	2,214	2,261	2,309	2,359	2,414
Payables					
Suppliers	237	237	237	237	237
Total payables	237	237	237	237	237
Total liabilities	2,451	2,498	2,546	2,596	2,651
Net assets	25,145	25,377	25,603	25,831	26,069
EQUITY					
Contributed equity	1,892	2,624	3,350	4,078	4,816
Retained surpluses	23,253	22,753	22,253	21,753	21,253
Total equity	25,145	25,377	25,603	25,831	26,069
Current assets	1,484	242	242	242	242
Non-current assets	26,112	27,633	27,907	28,185	28,478
Current liabilities	860	874	889	904	920
Non-current liabilities	1,591	1,624	1,657	1,692	1,731

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 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	828	828	828	828	828
Appropriations	11,091	12,597	11,723	11,167	11,284
Total cash received	11,919	13,425	12,551	11,995	12,112
Cash used					
Employees	7,229	7,807	8,042	8,282	8,507
Suppliers	3,532	4,376	4,009	3,713	3,605
Total cash used	10,761	12,183	12,051	11,995	12,112
Net cash from or (used by) operating activities	1,158	1,242	500	-	-
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment and intangibles	1,566	1,974	1,226	728	738
Total cash used	1,566	1,974	1,226	728	738
Net cash from or (used by) investing activities	(1,566)	(1,974)	(1,226)	(728)	(738)
FINANCING ACTIVITIES					
Cash received					
Contributed equity	408	732	726	728	738
Total cash received	408	732	726	728	738
Net cash from or (used by) financing activities	408	732	726	728	738
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 2014-15)

	Retained surpluses \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Contributed equity/ capital \$'000	Total equity \$'000
Opening balance as at 1 July 2014					
Balance carried forward from previous period	23,253	-	-	1,892	25,145
Adjusted opening balance	23,253	-	-	1,892	25,145
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)	-	-	-	732	732
Total transactions with owners	-	-	-	732	732
Estimated closing balance as at 30 June 2015	22,753	-	-	2,624	25,377

Prepared on Australian Accounting Standards basis.

Table 3.2.5: Departmental capital budget (DCB) statement

	Estimated actual 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
NEW CAPITAL APPROPRIATIONS					
Capital budget - Bill 1 DCB	408	732	726	728	738
Total new capital appropriations	408	732	726	728	738
Provided for:					
Purchase of non-financial assets	408	732	726	728	738
Total Items	408	732	726	728	738
PURCHASE OF NON-FINANCIAL ASSETS					
Funded by capital appropriation - DCB	1,566	1,974	1,226	728	738
Funded by prior year equity injections	-	-	-	-	-
TOTAL	1,566	1,974	1,226	728	738
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	1,566	1,974	1,226	728	738
Total cash used to acquire assets	1,566	1,974	1,226	728	738

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 2014				
Gross book value	-	1,827	4,680	6,507
Accumulated depreciation/amortisation and impairment	-	1,211	3,489	4,700
Opening net book balance	-	616	1,191	1,807
Capital Asset Additions/Disposals				
By purchase - appropriation ordinary annual services	-	232	1,742	1,974
Disposals - gross value	-	-	-	-
Total asset additions/disposals	-	232	1,742	1,974
Other movements				
Depreciation/amortisation expense	-	200	300	500
Disposals - accumulated depreciation/amortisation	-	-	-	-
Total other movements	-	200	300	500
As at 30 June 2015				
Gross book value	-	2,059	6,422	8,481
Accumulated depreciation/amortisation and impairment	-	1,411	3,789	5,200
Closing net book balance	-	648	2,633	3,281

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 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT					
Grants	20	20	20	20	20
Interest costs	13,429,145	14,707,116	16,133,431	17,155,541	17,874,958
Other	24,500	1,000	1,000	1,000	1,000
Total expenses before re-measurements	13,453,665	14,708,136	16,134,451	17,156,561	17,875,978
LESS:					
OWN-SOURCE INCOME					
Non-taxation revenue					
Interest	1,060,751	812,992	673,132	524,316	287,914
Total revenues before re-measurements	1,060,751	812,992	673,132	524,316	287,914
GAIN (LOSSES) BEFORE RE-MEASUREMENTS					
Net loss on repurchase of debt	(188,571)	-	-	-	-
Net gain on sale of financial assets	9,255	-	-	-	-
Total gains (losses)	(179,316)	-	-	-	-
Operating result before re-measurements	(12,572,230)	(13,895,144)	(15,461,319)	(16,632,245)	(17,588,064)
Re-measurements					
Net market valuation gains (losses)	2,414,245	363,957	151,906	26,936	(54,261)
Total re-measurements	2,414,245	363,957	151,906	26,936	(54,261)
Net result	(10,157,985)	(13,531,187)	(15,309,413)	(16,605,309)	(17,642,325)

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 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Cash and cash equivalents	622	622	622	622	622
Receivables	2,106,572	2,033,379	1,958,353	1,881,297	1,801,908
Investments (s39 FMA Act)	33,571,839	29,352,604	23,061,940	28,184,954	21,384,331
Total assets administered on behalf of government	35,679,033	31,386,605	25,020,915	30,066,873	23,186,861
LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT					
Interest bearing liabilities					
Commonwealth Government					
Securities	346,651,502	387,774,241	421,425,506	460,520,337	475,213,491
Other	307	307	307	307	307
Total liabilities administered on behalf of government	346,651,809	387,774,548	421,425,813	460,520,644	475,213,798
Net assets/(liabilities)	(310,972,776)	(356,387,943)	(396,404,898)	(430,453,771)	(452,026,937)

Prepared on Australian Accounting Standards basis.

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

	Estimated actual 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
OPERATING ACTIVITIES					
Cash received					
Interest	1,031,958	799,060	663,521	502,595	278,458
Total cash received	1,031,958	799,060	663,521	502,595	278,458
Cash used					
Interest and other costs paid	15,073,138	15,653,956	17,199,326	18,376,695	19,275,958
Grants	20	20	20	20	20
Total cash used	15,073,158	15,653,976	17,199,346	18,376,715	19,275,978
Net cash from or (used by) operating activities	(14,041,200)	(14,854,916)	(16,535,825)	(17,874,120)	(18,997,520)
INVESTING ACTIVITIES					
Cash received					
Repayments of advances	88,674	90,681	92,229	93,947	95,937
Total cash received	88,674	90,681	92,229	93,947	95,937
Net cash from or (used by) investing activities	88,674	90,681	92,229	93,947	95,937
FINANCING ACTIVITIES					
Cash received					
Proceeds from borrowing	112,524,666	143,833,193	169,499,747	183,132,135	226,864,275
Investment redemptions	620,598,237	232,906,749	199,351,189	144,122,952	52,916,863
Total cash received	733,122,903	376,739,942	368,850,936	327,255,087	279,781,138
Cash used					
Repayments of borrowings	47,786,586	101,393,024	134,626,503	142,786,916	210,821,434
Investments made	624,873,763	228,698,704	193,073,294	149,244,433	46,127,279
Total cash used	672,660,349	330,091,728	327,699,797	292,031,349	256,948,713
Net cash from or (used by) financing activities	60,462,554	46,648,214	41,151,139	35,223,738	22,832,425
Net increase or (decrease) in cash held	46,510,028	31,883,979	24,707,543	17,443,565	3,930,842
Cash at beginning of reporting period	622	622	622	622	622
Cash from Official Public Account for: appropriations	688,586,051	346,426,270	345,579,573	311,032,477	276,836,877
Cash to Official Public Account for: receipts	(735,096,079)	(378,310,249)	(370,287,116)	(328,476,042)	(280,767,719)
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 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
NEW CAPITAL APPROPRIATIONS					
Special appropriations	672,660,349	330,091,728	327,699,797	292,031,349	256,948,713
Total new capital appropriations	672,660,349	330,091,728	327,699,797	292,031,349	256,948,713
Provided for:					
Repayments of borrowings and purchase of investments	672,660,349	330,091,728	327,699,797	292,031,349	256,948,713
Total Items	672,660,349	330,091,728	327,699,797	292,031,349	256,948,713

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.

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 revenue includes 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 in the year it is appropriated.

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 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
Interest revenue					
Interest on housing agreements	127,748	123,582	119,273	114,865	110,336
Interest from investments	933,003	689,410	553,859	409,451	177,578
Total interest revenue	1,060,751	812,992	673,132	524,316	287,914

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 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
Commonwealth Government Securities (at fair value)					
Treasury Bonds	309,258,795	345,275,797	372,850,928	407,266,803	417,681,055
Treasury Indexed Bonds	31,377,994	35,984,642	38,564,821	43,251,291	47,530,193
Treasury Notes	5,993,820	6,493,305	9,989,700	9,988,400	9,988,400
Other	20,893	20,497	20,057	13,843	13,843
Total Commonwealth Government Securities (at fair value)	346,651,502	387,774,241	421,425,506	460,520,337	475,213,491