

AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Section 1: Agency overview and resources	107
1.1 Strategic direction statement	107
1.2 Agency resource statement	108
1.3 Budget measures.....	109
Section 2: Outcomes and planned performance	110
2.1 Outcomes and performance information	110
Section 3: Explanatory tables and budgeted financial statements	114
3.1 Explanatory tables	114
3.2 Budgeted financial statements	115

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 residential mortgage-backed securities, 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.

In accordance with the Government's Competitive and Sustainable Banking Package, the AOFM invests in AAA rated residential mortgage-backed securities to support competition in residential mortgage lending and to support lending to small business. Subject to market conditions and reverse enquiry requests for its involvement, in 2012-13, the AOFM will continue to acquire residential mortgage-backed securities in accordance with the terms of the program and will encourage a transition towards a sustainable and innovative securitisation market. The total to be made available for investment under the program is \$20 billion.

In the 2011-12 Budget, the AOFM received additional funding to implement the trading of Commonwealth Government Securities (CGS) on a financial market. Trading of CGS on a financial market aims to facilitate broader access to the Government's debt products and may assist further development of the corporate bond market in Australia. During 2012-13 the AOFM will continue to work with the Treasury to finalise the implementation of this initiative.

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 2012-13 as at Budget May 2012

	Estimate of prior year amounts available in 2012-13 \$'000	+	Proposed at Budget 2012-13 \$'000	=	Total estimate 2012-13 \$'000	Actual available appropriation 2011-12 \$'000
Ordinary annual services						
Departmental						
Prior year departmental appropriation	23,214 ⁴		-		23,214	-
Departmental appropriation ³	-		11,867 ¹		11,867	15,442
Receipts from other sources (s31)	-		828 ²		828	828
Total departmental	23,214		12,695		35,909	16,270
Administered expenses						
Outcome 1			10 ¹		10	10
Total ordinary annual services	A 23,214		12,705		35,919	16,280
Other services						
Departmental non-operating						
Equity injections	662		-		662	-
Total other services	B 662		-		662	-
Total available annual appropriations (A+B)	23,876		12,705		36,581	16,280
Special appropriations expenses						
<i>Commonwealth Inscribed Stock Act 1911</i>	-		12,017,200		12,017,200	11,525,172
<i>Financial Agreement Act 1994</i>	-		28		28	28
<i>Loans Securities Act 1919</i>	-		400		400	400
Subtotal	-		12,017,628		12,017,628	11,525,600
Special appropriations capital						
<i>Commonwealth Inscribed Stock Act 1911</i>	-		179,163,500		179,163,500	77,221,683
<i>Financial Management and Accountability Act 1997</i>	-		385,955,100		385,955,100	664,088,500
Subtotal	-		565,118,600		565,118,600	741,310,183
Total special appropriations	C -		577,136,228		577,136,228	752,835,783

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 2012-13 \$'000	+	Proposed at Budget 2012-13 \$'000	=	Total estimate 2012-13 \$'000	Actual available appropriation 2011-12 \$'000
Total appropriations excluding special accounts	23,876		577,148,933		577,172,809	752,852,063
Special accounts						
Opening balance ⁵	566		-		566	-
Total special account	D 566		-		566	-
Total net resourcing for the AOFM (A+B+C+D)	24,442		577,148,933		577,173,375	752,852,063

1. Appropriation Bill (No. 1) 2012-13.

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

3. Includes \$0.4 million in 2012-13 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

The AOFM does not have any budget measures for 2012-13.

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, financial reporting, debt administration, promotional activities 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 will continue to utilise a reverse enquiry approach for considering investment proposals from issuers of residential mortgage-backed securities and will continue to review its approach in light of changing market conditions.

Over the course of 2012-13, the AOFM will continue its work to implement the trading of CGS on a financial market. This will entail working with one or more financial market operators to implement a trading model for CGS, and working with the appointed registry provider to establish stock registry arrangements for CGS.

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

	2011-12 Estimated actual expenses \$'000	2012-13 Estimated expenses \$'000
Outcome 1: The advancement of macroeconomic growth and stability, and the effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and cash for the Australian Government		
Program 1.1: Australian Office of Financial Management		
Departmental expenses		
Departmental appropriation	11,271	12,289
Expenses not requiring appropriation in budget year	621	761
Administered expenses		
Ordinary annual services (Appropriation Bill No. 1)	10	10
Special appropriations		
<i>Commonwealth Inscribed Stock Act 1911</i>	11,525,172	12,017,200
<i>Financial Agreement Act 1994</i>	28	28
<i>Loans Securities Act 1919</i>	400	400
Total expenses for Outcome 1	11,537,502	12,030,688
	2011-12	2012-13
Average staffing level (number)	40	44

Contributions to Outcome 1

Program 1.1: Australian Office of Financial Management

Program objective

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

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

	2011-12 Revised budget \$'000	2012-13 Budget \$'000	2013-14 Forward year 1 \$'000	2014-15 Forward year 2 \$'000	2015-16 Forward year 3 \$'000
Annual departmental expenses:					
Departmental items	11,892	13,050	9,868	9,942	10,029
Annual administered expenses:					
Administered item	10	10	10	10	10
Special Appropriations:					
<i>Commonwealth Inscribed Stock Act 1911</i>	11,525,172	12,017,200	12,013,200	11,635,600	11,416,300
<i>Financial Agreement Act 1994</i>	28	28	28	28	28
<i>Loans Securities Act 1919</i>	400	400	400	400	400
Total program expenses	11,537,502	12,030,688	12,023,506	11,645,980	11,426,767

Program deliverables

The AOFM has the following key 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; 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.
- promote 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.
- investment in residential mortgage-backed securities; and
 - the extent of participation by other investors and the quality of the securities acquired.
- 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 2012-13. 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 2012-13	Receipts 2012-13	Payments 2012-13	Adjustments 2012-13	Closing balance 2012-13
		2011-12	2011-12	2011-12	2011-12	2011-12
	Outcome	\$'000	\$'000	\$'000	\$'000	\$'000
Debt Retirement Reserve Trust	1	566	-	-	-	566
Account		566	-	-	-	566
Total special accounts						
2012-13 Budget estimate		566	-	-	-	566
Total special accounts						
2011-12 estimated actual		566	-	-	-	566

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 has been deferred from 2011-12 to 2012-13.

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 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 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
EXPENSES					
Employee benefits	6,732	7,155	4,882	5,131	5,309
Supplier	4,800	5,395	4,486	4,311	4,220
Depreciation and amortisation	360	500	500	500	500
Total expenses	11,892	13,050	9,868	9,942	10,029
LESS:					
OWN-SOURCE INCOME					
Sale of goods and rendering of services	1,089	1,089	1,089	1,089	1,089
Total own-source income	1,089	1,089	1,089	1,089	1,089
Net cost of (contribution by) services	10,803	11,961	8,779	8,853	8,940
Appropriation revenue	12,413	11,461	8,279	8,353	8,440
Surplus (deficit) attributable to the Australian Government	1,610	(500)	(500)	(500)	(500)
Note: Impact of Net Cash Appropriation Arrangements					
	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000
Total Comprehensive Income (loss) less depreciation/amortisation expenses previously funded through revenue appropriations	1,970	-	-	-	-
plus depreciation/amortisation expenses previously funded through revenue appropriations	(360)	(500)	(500)	(500)	(500)
Total Comprehensive Income (loss) - as per the Statement of Comprehensive Income	1,610	(500)	(500)	(500)	(500)

Prepared on Australian Accounting Standards basis.

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

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
ASSETS					
Financial assets					
Cash and equivalents	1,811	1,091	449	149	299
Trade and other receivables	22,201	20,301	21,101	21,601	21,601
Total financial assets	24,012	21,392	21,550	21,750	21,900
Non-financial assets					
Infrastructure, plant and equipment	506	542	573	1,118	1,437
Intangibles	270	3,040	2,920	2,620	2,554
Other	140	140	140	140	140
Total non-financial assets	916	3,722	3,633	3,878	4,131
Total assets	24,928	25,114	25,183	25,628	26,031
LIABILITIES					
Provisions					
Employees	1,748	2,028	2,186	2,386	2,536
Other	133	133	133	133	133
Total provisions	1,881	2,161	2,319	2,519	2,669
Payables					
Suppliers	332	332	332	332	332
Total payables	332	332	332	332	332
Total liabilities	2,213	2,493	2,651	2,851	3,001
Net assets	22,715	22,621	22,532	22,777	23,030
EQUITY					
Contributed equity	4,525	4,931	5,342	6,087	6,840
Retained surpluses	18,190	17,690	17,190	16,690	16,190
Total equity	22,715	22,621	22,532	22,777	23,030
Current assets	3,176	1,367	725	425	575
Non-current assets	21,752	23,747	24,458	25,203	25,456
Current liabilities	856	940	988	1,048	1,226
Non-current liabilities	1,357	1,553	1,663	1,803	1,775

Prepared on Australian Accounting Standards basis.

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

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	828	828	828	828	828
Appropriations	9,013	13,361	7,479	7,853	8,440
Total cash received	9,841	14,189	8,307	8,681	9,268
Cash used					
Employees	6,491	6,875	4,724	4,931	5,159
Suppliers	4,539	5,134	4,225	4,050	3,959
Total cash used	11,030	12,009	8,949	8,981	9,118
Net cash from or (used by) operating activities	(1,189)	2,180	(642)	(300)	150
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment and intangibles	129	3,306	411	745	753
Total cash used	129	3,306	411	745	753
Net cash from or (used by) investing activities	(129)	(3,306)	(411)	(745)	(753)
FINANCING ACTIVITIES					
Cash received					
Contributed equity	3,029	406	411	745	753
Total cash received	3,029	406	411	745	753
Net cash from or (used by) financing activities	3,029	406	411	745	753
Net increase or (decrease) in cash held	1,711	(720)	(642)	(300)	150
Cash at the beginning of the reporting period	100	1,811	1,091	449	149
Cash at the end of the reporting period	1,811	1,091	449	149	299

Prepared on Australian Accounting Standards basis.

Table 3.2.4: Departmental statement of changes in equity — summary of movement (Budget year 2012-13)

	Retained surpluses \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Contributed equity/ capital \$'000	Total equity \$'000
Opening balance as at 1 July 2012					
Balance carried forward from previous period	18,190	-	-	4,525	22,715
Adjusted opening balance	18,190	-	-	4,525	22,715
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)	-	-	-	406	406
Total transactions with owners	-	-	-	406	406
Estimated closing balance as at 30 June 2013	17,690	-	-	4,931	22,621

Prepared on Australian Accounting Standards basis.

Table 3.2.5: Departmental capital budget (DCB) statement

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
NEW CAPITAL APPROPRIATIONS					
Capital budget - Bill 1 (DCB)	3,029	406	411	745	753
Total new capital appropriations	3,029	406	411	745	753
Provided for:					
Purchase of non-financial assets	3,029	406	411	745	753
Total Items	3,029	406	411	745	753
PURCHASE OF NON-FINANCIAL ASSETS					
Funded by capital appropriation - DCB	3,029	406	411	745	753
Funded by prior year equity injections					
TOTAL	3,029	406	411	745	753
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	129	3,306	411	745	753
Total cash used to acquire assets	129	3,306	411	745	753

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 2012				
Gross book value	-	1,554	3,320	4,874
Accumulated depreciation/amortisation and impairment	-	1,048	3,050	4,098
Opening net book balance	-	506	270	776
Capital Asset Additions/Disposals				
By purchase - appropriation ordinary annual services	-	236	3,070	3,306
Disposals - gross value	-	-	(3,000)	(3,000)
Total asset additions/disposals	-	236	70	306
Other movements				
Depreciation/amortisation expense	-	200	300	500
Disposals - accumulated depreciation/amortisation	-	-	(3,000)	(3,000)
Total other movements	-	200	(2,700)	(2,500)
As at 30 June 2013				
Gross book value	-	1,790	3,390	5,180
Accumulated depreciation/amortisation and impairment	-	1,248	350	1,598
Closing net book balance	-	542	3,040	3,582

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 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT					
Grants	28	28	28	28	28
Interest costs	11,518,582	12,016,610	12,012,610	11,635,010	11,415,710
Other	7,000	1,000	1,000	1,000	1,000
Total expenses before re-measurements	11,525,610	12,017,638	12,013,638	11,636,038	11,416,738
LESS:					
OWN-SOURCE INCOME					
Own-source revenue					
Revenue before re-measurements					
Non-taxation revenue					
Interest	1,396,727	1,337,023	1,375,850	1,070,131	929,033
Total revenues before re-measurements	1,396,727	1,337,023	1,375,850	1,070,131	929,033
Operating result before re-measurements	(10,128,883)	(10,680,615)	(10,637,788)	(10,565,907)	(10,487,705)
Re-measurements					
Net market valuation gains (losses)	(15,512,295)	2,674,300	2,370,700	1,961,800	1,625,800
Total re-measurements	(15,512,295)	2,674,300	2,370,700	1,961,800	1,625,800
Net income	(25,641,178)	(8,006,315)	(8,267,088)	(8,604,107)	(8,861,905)

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 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Cash and cash equivalents	622	622	622	622	622
Receivables	2,541,786	2,462,337	2,380,305	2,295,369	2,207,910
Investments (s39 FMA Act)	25,608,600	27,787,100	26,350,500	23,634,200	21,362,900
Total assets administered on behalf of government	28,151,008	30,250,059	28,731,427	25,930,191	23,571,432
LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT					
Interest bearing liabilities					
Commonwealth Government Securities	265,855,100	274,237,800	281,335,200	281,351,200	279,235,800
Total liabilities administered on behalf of government	265,855,100	274,237,800	281,335,200	281,351,200	279,235,800
Net assets/(liabilities)	(237,704,092)	(243,987,741)	(252,603,773)	(255,421,009)	(255,664,368)

Prepared on Australian Accounting Standards basis.

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

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
OPERATING ACTIVITIES					
Cash received					
Interest	1,356,512	1,315,823	1,359,217	1,054,703	918,062
Total cash received	1,356,512	1,315,823	1,359,217	1,054,703	918,062
Cash used					
Interest paid	11,041,285	12,573,083	12,608,662	12,650,893	13,981,592
Grants	28	28	28	28	28
Total cash used	11,041,313	12,573,111	12,608,690	12,650,921	13,981,620
Net cash from or (used by) operating activities	(9,684,801)	(11,257,288)	(11,249,473)	(11,596,218)	(13,063,558)
INVESTING ACTIVITIES					
Cash received					
Repayments of advances	97,871	100,249	102,565	105,164	107,330
Total cash received	97,871	100,249	102,565	105,164	107,330
Net cash from or (used by) investing activities	97,871	100,249	102,565	105,164	107,330
FINANCING ACTIVITIES					
Cash received					
Proceeds from borrowing	125,444,546	190,736,773	165,788,552	166,425,683	170,768,982
Investment redemptions	663,395,600	383,816,200	381,532,400	324,893,100	343,137,200
Total cash received	788,840,146	574,552,973	547,320,952	491,318,783	513,906,182
Cash used					
Repayments of borrowings	77,221,683	179,163,500	155,767,100	163,465,100	168,715,700
Investments made	664,088,500	385,955,100	380,058,000	322,149,500	340,852,800
Total cash used	741,310,183	565,118,600	535,825,100	485,614,600	509,568,500
Net cash from or (used by) financing activities	47,529,963	9,434,373	11,495,852	5,704,183	4,337,682
Net increase or (decrease) in cash held	37,943,033	(1,722,666)	348,944	(5,786,871)	(8,618,546)
Cash at beginning of reporting period	622	622	622	622	622
Cash from Official Public					
Account for: appropriations	753,428,696	578,581,711	549,034,190	498,915,121	524,294,520
Cash to Official Public					
Account for: receipts	(791,371,729)	(576,859,045)	(549,383,134)	(493,128,250)	(515,675,974)
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 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
NEW CAPITAL APPROPRIATIONS					
Special appropriations	741,310,183	565,118,600	535,825,100	485,614,600	509,568,500
Total new capital appropriations	741,310,183	565,118,600	535,825,100	485,614,600	509,568,500
Provided for:					
Repayments of borrowings and purchase of investments	741,310,183	565,118,600	535,825,100	485,614,600	509,568,500
Total Items	741,310,183	565,118,600	535,825,100	485,614,600	509,568,500

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 (including residential mortgage-backed securities).

Administered internal transactions

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

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

Goods and services tax

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

Budgeted departmental comprehensive income statement

Appropriations

Under the net cash appropriation framework the AOFM receives an output appropriation to meet budgeted expenses (except depreciation). The output appropriation is recognised in revenue.

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 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
Interest revenue					
Interest on housing agreements	153,639	149,123	144,450	139,631	134,633
Interest from investments	1,243,088	1,187,900	1,231,400	930,500	794,400
Total interest revenue	1,396,727	1,337,023	1,375,850	1,070,131	929,033

Expenses — interest costs

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
Interest costs					
Interest on Commonwealth Government Securities	11,518,582	12,016,610	12,012,610	11,635,010	11,415,710
Total interest costs	11,518,582	12,016,610	12,012,610	11,635,010	11,415,710

Net market valuation gains (losses)

Net market valuation gains (losses) represent the estimated unrealised fair value gains or losses on the financial asset and financial liability portfolio. 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 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
Commonwealth Government Securities (at fair value)					
Treasury Bonds	226,407,000	235,475,000	241,075,000	239,584,000	241,569,000
Treasury Indexed Bonds	25,063,000	27,666,000	29,161,000	30,668,000	26,567,000
Treasury Notes	14,368,000	11,081,000	11,083,000	11,083,000	11,083,000
Other	17,100	15,800	16,200	16,200	16,800
Total Commonwealth Government Securities (at fair value)	265,855,100	274,237,800	281,335,200	281,351,200	279,235,800