AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Section 1: Overview, appropriations and budget measures summary

AGENCY OVERVIEW

The Australian Office of Financial Management (AOFM), a 'prescribed agency' under the *Financial Management and Accountability Act 1997*, is responsible for the Commonwealth's debt management activities.

The AOFM aims to manage the Commonwealth net debt portfolio at least cost over the medium term, subject to the Government's policies and risk preferences.

APPROPRIATIONS AND RESOURCING

The total appropriation for the AOFM in the 2003-04 Budget is $114,964 million. Table 1.1 sets out appropriations for the AOFM.

Price of output appropriation is $6.5 million. The total administered outcome appropriation of $114,957.5 million is based on budgeted expenses of $5,534.9 million and budgeted debt redemption and financial investment activity of $109,422.6 million.

Australian Office of Financial Management — appropriations 2003-04

Table 1.1: Appropriations and other revenue

Outcome	Agency (price of outputs) $'000					Administered $'000				$'000
	Revenues from government (appropriations)			Revenue from other sources	Price of outputs[2]	Annual appropriations		Special appropriations[3]	Total administered appropriations	Total appropriations
	Bill No. 1	Special approps	Total			Bill No. 1	Bill No. 2 (SPPs & NAOs)			
	(A)	(B)	(C = A+B)	(D)	(E = C+D)	(F)	(G)	(H)	(I = F+G+H)	(J = C+I)
			(C1)[1]		(E1)[1]				(I1)[1]	
Outcome 1 - To enhance the Commonwealth's capacity to manage its net debt portfolio, offering the prospect of savings in debt servicing costs and an improvement in the net worth of the Commonwealth over time	6,511	-	6,511	-	6,511	2,792	-	114,954,706	114,957,498	114,964,009
			100%	0%	100%					
Total	6,511	-	(K1)[1] 6,511	-	6,511	2,792	-	114,954,706	114,957,498	114,964,009
Agency capital (equity injections and loans)										-
Administered capital										-
Total appropriations										114,964,009

(1) C1, E1 and I1 refer to information provided in Table 2.1, Total resources for Outcome 1. Amount K1 refers to information provided in Table 3.1, Budgeted Agency Statement of Financial Performance.
(2) Refer to Table 3.1 Budgeted Agency Statement of Financial Performance for application of agency revenue.
(3) Estimated expenses from individual special appropriations are shown in Table 1.4.
Note: Percentage figures indicate the percentage contribution of revenues from government (agency appropriations) to the total price of outputs, by outcome.

AGENCY AND ADMINISTERED REVENUES

Table 1.3: Agency and administered revenues

	Estimated revenue 2002-03 $'000	Estimated revenue 2003-04 $'000
ESTIMATED AGENCY REVENUES		
Non-appropriation agency revenues		
AOFM section 31 receipts	20	-
Total non-appropriation agency revenues	20	-
Appropriation revenue	7,094	6,511
Total agency revenues	7,114	6,511
ESTIMATED ADMINISTERED REVENUES		
Non-appropriation administered revenues		
Financial Agreement Act 1994 - Loan management expenses (recoveries from the States and Northern Territory)	20	20
Financial Agreement Act 1994 - Interest paid by States and Northern Territory on other loans	30,295	19,009
Financial Management and Accountability Act 1997 - Interest on financial assets	388,275	153,120
Housing Agreements, Northern Territory Housing Agreement and Housing Assistance Acts - Advances to the States and Northern Territory (interest)	96,595	94,100
Loan Securities Act 1919 - Securities gain on foreign exchange	17,434	-
Loan Securities Amendment Act 1988 - Swaps gain on foreign exchange(1)	564,503	4,546
Loan Securities Amendment Act 1988 - Swaps interest	2,197,509	1,857,998
States (Works and Housing Assistance) Acts - Advances to the States (interest)	69,178	68,449
War Service Lands Settlements Acts - Advances to the States (interest)	336	303
Other - change in accounting policy	471,173	-
Total non-appropriation administered revenues	3,835,318	2,197,545
Total estimated agency and administered revenues	3,842,432	2,204,056

(1) Includes forward foreign exchange contracts.

Non-appropriated agency revenues comprise interest revenue earned on cash balances and term deposit investments under the Agency Banking Incentive Scheme (ABIS). With the discontinuation of the ABIS from 1 July 2003, the AOFM will not earn interest revenue for 2003-04 and onwards.

Administered revenues include interest revenue on swap transactions and financial investments, interest on Commonwealth Government Securities allocated to the States and Territories and interest on other advances made to the States under Commonwealth — State financing arrangements.

Financial assets and liabilities denominated in a foreign currency are converted to Australian dollar equivalents using budget exchange rate assumptions. Estimated net exchange rate gains arising from the currency translations are disclosed in Table 1.3.

SPECIAL APPROPRIATIONS

Table 1.4: Estimates of expenses from special appropriations

	Estimated expenses 2002-03 $'000	Estimated expenses 2003-04 $'000
ESTIMATED AGENCY EXPENSES		
Special appropriations		
Airports (Transitional) Act 1996		
- Interest on former debts of the Federal Airports Commission	33,905	26,989
Commonwealth Inscribed Stock Act 1911 - Loan flotation expenses	422	422
Commonwealth Inscribed Stock Act 1911, *Loans Securities Act 1919*, *Loans Redemption and Conversion Act 1921* - Interest	4,555,704	4,095,362
Financial Agreement Act 1994 - Assistance for debt redemption	29,800	35,292
Financial Agreement Act 1994 - Commonwealth contributions to the Debt Retirement Reserve Trust Account	1,509	1,412
Loans Redemption and Conversion Act 1921		
- Net repurchase premia	68,000	-
Loans Securities Amendment Act 1988 - Swaps interest	1,643,976	1,354,250
Snowy Hydro Corporatisation Act 1997		
- Interest	18,961	18,377
Total special appropriations	6,352,277	5,532,104
Other appropriations	2,792	2,792
Total estimated agency expenses	6,355,069	5,534,896

The commentary below summaries the key legislative mechanisms that establish the Commonwealth's borrowing capacity.

The *Commonwealth Inscribed Stock Act 1911* and associated regulations represent the Commonwealth's primary vehicle for the creation and issuance of domestic stock prescribed under the Act, including Treasury Fixed Coupon Bonds, Treasury Indexed Bonds and Treasury Notes.

The *Financial Agreement Act 1994* formalises revised debt redemption arrangements applying since 1 July 1990 between the Commonwealth and the States and Territories.

The *Loans Securities Act 1919* (as amended by the *Loans Securities Amendment Act 1988*) provides the Commonwealth with additional borrowing flexibility, by allowing borrowings authorised under the *Commonwealth Inscribed Stock Act 1911* to be made in a foreign currency and by providing an explicit authority to enter into swaps and other financial arrangements.

SPECIAL ACCOUNTS

Table 1.5: Estimates of special account flows and balances

		Opening Balance	Receipts	Payments	Closing Balance
	A(1)	**2003-04**	**2003-04**	**2003-04**	**2003-04**
	B(1)	2002-03	2002-03	2002-03	2002-03
		$'000	$'000	$'000	$'000
SPECIAL ACCOUNTS(2)					
Debt Retirement Reserve Trust Account		**5,946**	**291,574**	**297,326**	**194**
		2,831	34,911	31,796	5,946
Total special accounts		**5,946**	**291,574**	**297,326**	**194**

(1) The opening balance for 2003-04 (reference A) is the same as the closing balance for 2002-03 (reference B).
(2) The special account is administered in nature and is governed by the *Financial Agreement Act 1994*.

Until July 1990, the Commonwealth borrowed on behalf of the State and Territory Governments and allocated a portion of its Treasury Bond raisings to those Governments to fund the redemption of previous allocations of bond raisings.

The annual funding of the redemption of the State and Territory allocated debt is governed by the *Financial Agreement Act 1994* which requires the Commonwealth to establish and maintain the Debt Retirement Reserve Trust Account (DRRTA), a special account, for each State and the Northern Territory. Monies standing to the credit of an account established in respect of a State or the Northern Territory are applied by the Commonwealth in connection with the repurchase and repayment of the debt of that State or the Northern Territory.

The Act prescribes the contributions to be made by the Commonwealth, the States and the Northern Territory to the DRRTA to meet the volume of maturing debt.

EQUITY INJECTIONS AND LOANS

An equity injection carried over from the 2000-01 financial year of $3.1 million is expected to be utilised in 2002-03 for the acquisition of a specialist debt management system.

Section 2: Outcomes and outputs information

OUTCOMES AND OUTPUT GROUPS

The map below shows the relationship between government outcomes and the contributing outputs for the Australian Office of Financial Management (AOFM). Financial detail for Outcome 1 by output appears in Table 2.1 while performance information for Outcome 1 appears in Table 2.2.

Output cost attribution

The AOFM's single output is debt management. All departmental appropriations are attributed to this output.

Map 2: Outcomes and output groups

Australian Office of Financial Management

Acting Chief Executive Officer: Mr Blair Comley

Overall outcome

Strong, sustainable economic growth and the improved wellbeing of Australians

Outcome 1

To enhance the Commonwealth's capacity to manage its net debt portfolio, offering the prospect of savings in debt servicing costs and an improvement in the net worth of the Commonwealth over time

Total price of outputs: $6.5 million
Total administered expenses: $5,534.9 million

Output Group 1.1

Australian Office of Financial Management

Output 1.1.1

Debt management

CHANGES TO OUTCOMES AND OUTPUTS

There are no proposed changes to the outcome or outputs.

OUTCOME 1 — DESCRIPTION

To enhance the Commonwealth's capacity to manage its net debt portfolio, offering the prospect of savings in debt servicing costs and an improvement in the net worth of the Commonwealth over time.

Measures affecting Outcome 1

There are no measures for the AOFM in the 2003-04 Budget.

OUTCOME 1 — RESOURCING

Table 2.1 shows how the 2003-04 appropriations translate to total resourcing for Outcome 1, including administered and agency appropriations, revenue from other sources, and the total price of outputs. Cell references C1, E1 and I1 show the links back to Table 1.1 (the Appropriations and other revenue table for the agency).

Table 2.1: Total resources for Outcome 1

	Estimated actual 2002-03 $'000		Budget estimate 2003-04 $'000
Administered appropriations			
Annual appropriations	2,792		2,792
Special appropriations	130,432,106		114,954,706
Total administered appropriations	130,434,898	(I1)(1)	114,957,498
Agency appropriations			
Output Group 1.1 - Australian Office of Financial Management			
Output 1.1.1 - Debt management	7,094		6,511
Total revenues from government (appropriations)	7,094	(C1)(1)	6,511
Contributing to price of agency outputs	99.7%		100%
Revenue from other sources			
Interest	20		-
Total revenue from other sources	20		-
Total price from agency outputs (Total revenues from government and from other sources)	7,114	(E1)(1)	6,511
Estimated payments from special account balances(2)			
Debt Retirement Reserve Trust Account	31,796		297,326
Total administered special account outflows	31,796		297,326
Total estimated resourcing for Outcome 1 (Total price of outputs and administered appropriations)	130,442,012		114,964,009

	2002-03	2003-04
Average staffing level (number)	37	37

(1) C1, E1 and I1 show the links back to Table 1.1.
(2) This special account is governed by the *Financial Agreement Act 1994*. Further details on special accounts appear in Table 1.5.

OUTCOME 1 — CONTRIBUTION OF OUTPUTS

The AOFM delivers a single output – debt management. Debt management encompasses the execution of instruments including Treasury Fixed Coupon Bonds, Treasury Indexed Bonds, Treasury Notes and associated derivatives. It also encompasses risk management activities, compliance activities, financial reporting and debt administration.

The debt portfolio is managed in line with the risk preferences and requirements of key stakeholders. Debt management activities comply with applicable accounting standards and legislative requirements.

PERFORMANCE INFORMATION FOR OUTCOME 1

Table 2.2: Performance information for Outcome1

Effectiveness - Overall achievement of the Outcome	
Debt issued by the Commonwealth (including Commonwealth Government Securities allocated to States and Territories) and debt assumed from Commonwealth agencies.	Achievement of the Commonwealth's financing task in a cost-effective manner.
Performance information for agency outputs	
Output Group 1.1 - Australian Office of Financial Management	
Output 1.1.1 - Debt management	Achievement of the Commonwealth's financing task in a cost-effective manner. Timely production of reports on debt management activities. Efficient execution of the Commonwealth's borrowing activities. Partial indicators include the narrowness of the range of accepted bids and of the basis point spread between tender and secondary market yields. Efficient management of the Commonwealth's cash balances. Indicators include achievement of the Ministerially endorsed cumulative average cash balance targets as at end-year.

EVALUATIONS

Information on planned evaluation activity for the coming year that relates to the AOFM's outcome and outputs is included in Table 2.2. Results of evaluations will be presented in the AOFM's Annual Report.

Section 3: Budgeted financial statements

Budgeted agency and administered financial statements and related notes for the Australian Office of Financial Management (AOFM) are presented in this section. The financial statements are produced for 2002-03 (estimated actual results), 2003-04 (Budget estimate) and three forward years. The financial statements should be read in conjunction with the accompanying notes.

AGENCY FINANCIAL STATEMENTS

Budgeted agency statement of financial performance

This statement provides a picture of the expected financial results for the AOFM by identifying full accrual expenses and revenues.

Budgeted agency statement of financial position

This statement shows the financial position of the AOFM. It enables decision-makers to track the management of the agency's assets and liabilities.

Budgeted agency statement of cash flows

This statement provides information on the amount and nature of budgeted cash flows, categorised into expected cash flows from operating activities, investing activities and financing activities.

Agency capital budget statement

This statement shows all proposed capital expenditure on non-financial assets, whether funded through capital appropriations (equity or borrowings) or from internally sourced funds.

Agency non-financial assets — summary of movement

This statement shows the budgeted movement in the AOFM's non-financial assets during the budget year 2003-04.

NOTES OF ADMINISTERED ACTIVITY

Details of transactions administered by the AOFM on behalf of the Commonwealth are shown in the following notes to the financial statements.

Note of budgeted administered financial performance

This note identifies the revenues and expenses administered on behalf of the Government.

Note of budgeted administered financial position

This note shows the assets and liabilities administered on behalf of the Government.

Note of budgeted administered cash flows

This note shows cash flows administered on behalf of the Government.

Table 3.1: Budgeted Agency Statement of Financial Performance — for the period ended 30 June

	Estimated actual 2002-03 $'000		Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
REVENUES						
Revenues from ordinary activities						
Revenues from government	7,094	(K1)[1]	6,511	6,506	6,505	6,583
Interest	20		-	-	-	-
Total revenues from ordinary activities	7,114		6,511	6,506	6,505	6,583
EXPENSES						
Expenses from ordinary activities (excluding borrowing costs expense)						
Employees	3,921		4,125	4,200	4,280	4,346
Suppliers	1,775		1,636	1,556	1,475	1,487
Depreciation and amortisation	750		750	750	750	750
Total expenses from ordinary activities (excluding borrowing costs expense)	6,446		6,511	6,506	6,505	6,583
Borrowing costs expense	-		-	-	-	-
Operating surplus or deficit from ordinary activities	668		-	-	-	-
Capital use charge	668		-	-	-	-
Net surplus or deficit	-		-	-	-	-

(1) K1 shows the link back to Table 1.1.

Table 3.2: Budgeted Agency Statement of Financial Position — as at 30 June

	Estimated actual 2002-03 $'000	Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
ASSETS					
Financial assets					
Cash	2,933	3,866	4,796	5,726	6,641
Total financial assets	2,933	3,866	4,796	5,726	6,641
Non-financial assets					
Infrastructure, plant and equipment	1,256	1,006	756	506	256
Intangibles	3,190	2,690	2,190	1,690	1,190
Total non-financial assets	4,446	3,696	2,946	2,196	1,446
Total assets	7,379	7,562	7,742	7,922	8,087
LIABILITIES					
Provisions					
Employees and other	1,304	1,487	1,667	1,847	2,012
Total provisions	1,304	1,487	1,667	1,847	2,012
Total liabilities	1,304	1,487	1,667	1,847	2,012
EQUITY					
Parent entity interest					
Contributed equity	3,400	3,400	3,400	3,400	3,400
Retained surpluses or accumulated deficits	2,675	2,675	2,675	2,675	2,675
Total parent equity interest	6,075	6,075	6,075	6,075	6,075
Total equity	6,075	6,075	6,075	6,075	6,075
Total assets and liabilities by maturity					
Current assets	2,933	3,866	4,796	5,726	6,641
Non-current assets	4,446	3,696	2,946	2,196	1,446
Current liabilities	142	142	142	142	142
Non-current liabilities	1,162	1,345	1,525	1,705	1,870

Table 3.3: Budgeted Agency Statement of Cash Flows — for the period ended 30 June

	Estimated actual 2002-03 $'000	Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
OPERATING ACTIVITIES					
Cash received					
Appropriations	7,094	6,511	6,506	6,505	6,583
Interest and other	23	-	-	-	-
Total cash received	7,117	6,511	6,506	6,505	6,583
Cash used					
Employees	3,786	3,942	4,020	4,100	4,181
Suppliers	1,778	1,636	1,556	1,475	1,487
Total cash used	5,564	5,578	5,576	5,575	5,668
Net cash from operating activities	1,553	933	930	930	915
INVESTING ACTIVITIES					
Cash received					
Equity Injection	3,062	-	-	-	-
Maturity of investment	1,500	-	-	-	-
Total cash received	4,562	-	-	-	-
Cash used					
Purchases of property, plant and equipment	2,949	-	-	-	-
Total cash used	2,949	-	-	-	-
Net cash from investing activities	1,613	-	-	-	-
FINANCING ACTIVITIES					
Cash used					
Capital use charge paid	727	-	-	-	-
Total cash used	727	-	-	-	-
Net cash from financing activities	(727)	-	-	-	-
Net increase/(decrease) in cash held	2,439	933	930	930	915
Cash at the beginning of the reporting period	494	2,933	3,866	4,796	5,726
Cash at the end of the reporting period	2,933	3,866	4,796	5,726	6,641

Table 3.4: Agency Capital Budget Statement

	Estimated actual 2002-03 $'000	Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
PURCHASE OF NON-CURRENT ASSETS					
Funded by capital appropriations	-	-	-	-	-
Funded internally by agency resources	2,949	-	-	-	-
Total	2,949	-	-	-	-

Table 3.5: Agency Non-financial Assets — Summary of Movement (Budget year 2003-04)

	Land	Buildings	Specialist military equipment	Other infrastructure plant and equipment	Heritage and cultural assets	Computer software	Other intangibles	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount at the start of year	-	-	-	1,256	-	3,190	-	4,446
Additions	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Revaluation increments	-	-	-	-	-	-	-	-
Recoverable amount write-downs	-	-	-	-	-	-	-	-
Net transfers free of charge	-	-	-	-	-	-	-	-
Depreciation/amortisation expense	-	-	-	(250)	-	(500)	-	(750)
Write-off of assets	-	-	-	-	-	-	-	-
Carrying amount at the end of year	-	-	-	1,006	-	2,690	-	3,696
Total additions								
Self funded	-	-	-	-	-	-	-	-
Appropriations	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

Table 3.6: Note of Budgeted Financial Performance Administered on behalf of the Government — for the period ended 30 June

	Estimated actual 2002-03 $'000	Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
REVENUES					
Non-taxation					
Interest	2,782,188	2,192,979	1,839,623	1,677,532	1,907,706
Net foreign exchange gains	581,937	4,546	-	-	-
Other	471,193	20	20	21	21
Total non-taxation	3,835,318	2,197,545	1,839,643	1,677,553	1,907,727
Total revenues administered on on behalf of the Government	3,835,318	2,197,545	1,839,643	1,677,553	1,907,727
EXPENSES					
Grants	31,309	36,704	54,340	195,690	-
Net foreign exchange losses	-	-	28,207	9,767	-
Interest and financing costs	6,323,760	5,498,192	5,063,586	4,398,510	4,033,814
Total expenses administered on behalf of the Government	6,355,069	5,534,896	5,146,133	4,603,967	4,033,814

Table 3.7: Note of Budgeted Financial Position Administered on behalf of the Government — as at 30 June

	Estimated actual 2002-03 $'000	Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
ASSETS					
Financial assets					
Cash	73	73	73	73	73
Receivables	4,178,815	3,807,419	3,648,793	3,428,455	3,341,923
Investments	8,507,000	-	-	-	-
Accrued revenues	196,115	140,574	97,076	108,345	151,669
Total financial assets	12,882,003	3,948,066	3,745,942	3,536,873	3,493,665
Total assets administered on behalf of the Government	12,882,003	3,948,066	3,745,942	3,536,873	3,493,665
LIABILITIES					
Debt					
Commonwealth securities	58,004,065	48,510,351	48,545,868	36,924,450	22,190,251
Other	1,088,879	609,901	32,305	-	-
Total debt	59,092,944	49,120,252	48,578,173	36,924,450	22,190,251
Provisions					
Interest	3,175,374	3,242,697	3,375,100	2,725,449	2,956,498
Total provisions	3,175,374	3,242,697	3,375,100	2,725,449	2,956,498
Total liabilities administered on behalf of the Government	62,268,318	52,362,949	51,953,273	39,649,899	25,146,749

Table 3.8: Note of Budgeted Administered Cash Flows — for the period ended 30 June

	Estimated actual 2002-03 $'000	Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
OPERATING ACTIVITIES					
Cash received					
Cash from Official Public Account	6,325,573	5,581,198	5,117,586	5,381,993	3,934,214
Interest	2,848,065	2,293,550	1,936,390	1,708,480	1,880,382
Other	20	20	20	20	20
Total cash received	9,173,658	7,874,768	7,053,996	7,090,493	5,814,616
Cash used					
Cash to Official Public Account	2,848,085	2,293,570	1,936,410	1,708,500	1,880,402
Grant payments	31,309	36,704	54,340	195,690	-
Interest and other financing costs	6,294,264	5,544,494	5,063,246	5,186,303	3,934,214
Total cash used	9,173,658	7,874,768	7,053,996	7,090,493	5,814,616
Net cash from operating activities	-	-	-	-	-
INVESTING ACTIVITIES					
Cash received					
Housing agreement repayments	80,824	74,070	83,621	82,804	86,533
Total cash received	80,824	74,070	83,621	82,804	86,533
Cash used					
Cash to Official Public Account	80,824	74,070	83,621	82,804	86,533
Total cash used	80,824	74,070	83,621	82,804	86,533
Net cash from investing activities	-	-	-	-	-
FINANCING ACTIVITIES					
Cash received					
Cash from Official Public Account	113,531,521	109,422,602	113,084,157	119,100,409	119,634,000
Proceeds from borrowing	103,097,712	102,728,881	105,005,128	104,213,507	105,015,250
Swap principal(1)	7,051,207	5,535,653	7,662,542	3,456,872	-
Total cash received	223,680,440	217,687,136	225,751,827	226,770,788	224,649,250
Cash used					
Cash to Official Public Account	110,148,919	108,264,534	112,667,670	107,670,379	105,015,250
Net repayment of borrowings	106,383,288	103,412,517	104,807,995	115,601,465	119,634,000
Swap principal(1)	7,148,233	6,010,085	8,276,162	3,498,944	-
Total cash used	223,680,440	217,687,136	225,751,827	226,770,788	224,649,250
Net cash from financing activities	-	-	-	-	-
Net increase/(decrease) in cash held	-	-	-	-	-
Cash at beginning of reporting period	73	73	73	73	73
Cash at end of reporting period	73	73	73	73	73

(1) Includes forward foreign exchange contracts.

NOTES TO THE FINANCIAL STATEMENTS

Basis of accounting

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention. No allowance is made for the effect of changing prices on the results or the financial position of the AOFM.

Administered internal transactions

Administered transactions between the AOFM and other agencies within the general government (administered internal transactions) are not reported in the note of budgeted administered financial performance or the note of administered financial position.

Cash flows in the note of budgeted administered cash flows are reported inclusive of administered internal transactions.

Goods and services tax (GST)

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

The budgeted financial statements have been prepared in accordance with the goods and services tax (GST) accounting guidelines of the Urgent Issues Group (UIG) of the Australian Accounting Standards Board. The UIG consensus requires that expenses and assets be accounted for net of recoverable GST, revenues be accounted for net of GST payable, and that cash flows and accounts payable and receivable be reported gross. Appropriations are thus net of recoverable GST amounts.

Budgeted agency and administered financial statements

Under the Commonwealth's accrual budgeting framework, and consistent with Australian Accounting Standards, 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, revenues 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.

- Administered assets, liabilities, revenues and expenses are those which are managed on behalf of the Government according to set government directions. Administered expenses include interest incurred on Commonwealth debt and administered revenues include interest earned on housing agreement loans and interest from swaps.

Appropriations in the accrual budgeting framework

Under the Commonwealth's accrual budgeting framework, separate annual appropriations are provided to the AOFM for:

- agency price of outputs appropriations: representing the Government's purchase of outputs; and
- administered expense appropriations: for the estimated administered expenses relating to debt management output.

Special appropriations continue under the accrual budgeting framework and fund the majority of payments from the Official Public Account, including debt redemption and financial investment activity. In addition, the AOFM received a one-off agency capital appropriation in 2000-01 for the acquisition of a specialist debt management system.

Budgeted agency financial performance

Appropriations

Price of outputs appropriation estimates are not based on market price indicators. The agreed price of outputs appropriation is based on budgeted expenses.

The AOFM has prepared its estimates for the 2003-04 budget and forward years to achieve a break-even operating result. Consequently the appropriation revenues from Government represents the funding required to meet all expenses (after deduction of revenue from other sources for 2002-03).

Interest revenue

As part of the Agency Banking Incentive Scheme (ABIS), the AOFM has estimated that for 2002-03 it will earn $20,000 interest on credit balances in its agency account and from term deposit investments. With the discontinuation of ABIS from 1 July 2003, the AOFM will not earn interest revenue for 2003-04 and onwards.

Budgeted agency financial position

Cash

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

- settle employee liabilities as they fall due;
- make asset replacements (from depreciation funding); and
- repay liabilities.

Budgeted financial statements have been prepared on the assumption that unspent monies will not be withdrawn by the Department of Finance and Administration.

Administered notes of budgeted financial statements

Revenues and expenses

Non-taxation revenue — interest

	Estimated actual 2002-03 $'000	Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
Interest					
Interest on housing agreements	166,109	162,852	159,477	155,985	152,382
Interest on State and Northern Territory debt	30,295	19,009	10,847	633	-
Interest from other sources	2,585,784	2,011,118	1,669,299	1,520,914	1,755,324
Total interest	2,782,188	2,192,979	1,839,623	1,677,532	1,907,706

Interest from other sources includes interest from swaps and investments.

Non-taxation revenue – other

With the implementation of a specialist debt management system, the AOFM has moved to align its accounting framework fully with best practice financial market conventions.

The principle changes relate to the initial recognition and subsequent amortisation of issue premiums and discounts on Treasury Fixed Coupon Bonds and Treasury Indexed Bonds.

The AOFM accounting framework is fully compliant with Australian Accounting Standards, both prior to and following on from these changes.

The change in accounting policy, effective from 30 June 2003, is expected to result in a one-off reduction in the book value of AOFM administered liabilities and the recognition of revenue of $471 million on the effective date.

Expenses — grants

	Estimated actual 2002-03 $'000	Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
Grants					
Grants to State and Northern Territory Governments	31,309	36,704	54,340	195,690	-
Total grants	31,309	36,704	54,340	195,690	-

Expenses — interest and other financing costs

	Estimated actual 2002-03 $'000	Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
Interest and other financing costs					
Interest on Government securities	4,555,714	4,095,372	3,937,406	3,493,949	3,325,650
Interest on swaps	1,643,976	1,354,250	1,106,763	897,872	703,000
Interest on other debt	52,866	45,366	8,396	3,485	1,960
Net repurchase premia	68,000	-	7,817	-	-
Other financing costs	3,204	3,204	3,204	3,204	3,204
Total interest and other financing costs	6,323,760	5,498,192	5,063,586	4,398,510	4,033,814

Assets and Liabilities

Debt — Commonwealth securities

Commonwealth securities represent the book value of government securities on issue, net of investments (except for 2002-03 where they are reported on a gross basis).

Financial assets — receivables

	Estimated actual 2002-03 $'000	Budget estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000	Forward estimate 2006-07 $'000
Receivables					
Loans to State and Northern Territory Governments	4,178,790	3,807,394	3,648,768	3,428,430	3,341,898
Other	25	25	25	25	25
Total receivables	4,178,815	3,807,419	3,648,793	3,428,455	3,341,923