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 2004-05 Budget is $87,830.5 million. Table 1.1 sets out appropriations for the AOFM.

Price of outputs appropriation is $8.1 million. The total administered outcome appropriation of $87,822.4 million is based on budgeted expenses of $5,976.4 million and budgeted debt redemption and financial investment activity of $81,846.0 million.

Australian Office of Financial Management — appropriations 2004-05

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 (A)	Special approps (B)	Total (C = A+B) (C1)[1]	(D)	(E = C+D) (E1)[1]	Bill No. 1 (F)	Bill No. 2 (SPPs & NAOs) (G)	(H)	(I = F+G+H) (I1)[1]	(J = C+I)
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	8,097	-	8,097	-	8,097	10	-	87,822,424	87,822,434	87,830,531
			100%	0%	100%					
Total	8,097	-	(K1)[1] 8,097	-	8,097	10	-	87,822,424	87,822,434	87,830,531
								Agency capital (equity injections and loans)		-
								Administered capital		-
								Total appropriations		87,830,531

1. C1, E1 and I1 refer to information provided in Table 2.1, Total resources for Outcome 1. 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 1.5.

Note: Percentage figures indicate the percentage contribution of revenues from government (agency appropriations) to the total price of outputs, by outcome.

AGENCY REVENUES

Table 1.3: Agency revenues

	2003-04 estimated revenue $'000	2004-05 estimated revenue $'000
ESTIMATED AGENCY REVENUES		
Appropriation revenue	8,135	8,097
Total estimated agency revenues	8,135	8,097
ESTIMATED ADMINISTERED REVENUES		
Non-appropriation administered revenues		
Financial Agreement Act 1994 - Interest paid by States and Northern Territory on other loans	19,009	10,847
Financial Management and Accountability Act 1997 - Interest on financial assets	500,879	344,000
Housing Agreements, Northern Territory Housing Agreement and Housing Assistance Acts - Advances to the States and Northern Territory (interest)	94,100	91,522
Loans Securities Act 1919 - Gain on foreign exchange[1]	172,452	-
Loans Securities Act 1919 - Swaps interest	1,909,063	2,191,096
States (Works and Housing Assistance) Acts - Advances to the States (interest)	68,449	67,686
War Service Lands Settlements Acts - Advances to the States (interest)	303	269
Total non-appropriation administered revenues	2,764,255	2,705,420
Total estimated agency and administered revenues	2,772,390	2,713,517

Note 1: comprises forward foreign exchange contracts, cross currency swaps and foreign denominated bonds.

Administered revenues includes 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 actual exchange rates for closed-out positions and budget exchange rate assumptions for positions open at the time of preparing the budget estimates. Estimated net exchange rate gains arising from the currency translations are disclosed in Table 1.3.

SPECIAL APPROPRIATIONS

Table 1.5: Estimates of expenses from special appropriations

	2003-04 estimated expenses $'000	2004-05 estimated expenses $'000
ESTIMATED EXPENSES		
Special appropriations		
Airports (Transitional) Act 1996 section 78 - Interest on former debts of the Federal Airports Corporation	8,174	-
Commonwealth Inscribed Stock Act 1911 section 6 - Loan flotation expenses	422	422
Commonwealth Inscribed Stock Act 1911 section 6 - Interest on Stock	3,955,362	3,852,619
Financial Agreement Act 1994 section 5 - Assistance for debt redemption	35,292	53,745
Financial Agreement Act 1994 section 5 - Commonwealth contributions to the Debt Retirement Reserve Trust Account	1,412	595
Loans Securities Act 1919 section 4 - Interest on Stock	17,000	13,000
Loans Securities Act 1919 section 5B(2) - Interest on swaps	1,570,046	2,030,616
Loans Securities Act 1919 section 5B(2) - Net repurchase premia	4,951	-
Snowy Hydro Corporatisation Act 1997 section 22 - Interest	33,359	25,432
Total estimated expenses from special appropriations	5,626,018	5,976,429
Other appropriations	10	10
Total estimated expenses	5,626,028	5,976,439

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 overseas borrowings and borrowings in foreign currencies and by providing an explicit authority to enter into swaps and other financial arrangements.

SPECIAL ACCOUNTS

Table 1.6: Estimates of special account flows and balances

		Opening balance $'000	Receipts $'000	Payments $'000	Closing balance $'000
	A[1]	**2004-05**	**2004-05**	**2004-05**	**2004-05**
	B[1]	2003-04	2003-04	2003-04	2003-04
SPECIAL ACCOUNTS[2]					
Debt Retirement Reserve Trust Account		**245**	**76,417**	**75,005**	**1,657**
		5,997	291,574	297,326	245
Total special accounts		**245**	**76,417**	**75,005**	**1,657**

1. The opening balance for 2004-05 (reference A) is the same as the closing balance for 2003-04 (reference B).
2. This 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. Until 1986, the Commonwealth also borrowed on behalf of the State and Territory Governments to raise new borrowings.

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 the States and the Northern Territory. Monies standing to the credit 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.

AGENCY EQUITY INJECTIONS AND LOANS

The AOFM is not seeking new equity injections or loans for 2004-05.

The AOFM will carryover into 2004-05 unspent equity injections obtained during 2003-04 and previous financial years for the acquisition of a specialist debt management system and for the implementation of the Budget Estimates and Framework Review (BEFR) recommendations.

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 appears in Table 2.1 while non-financial 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

Chief Executive Officer: Neil Hyden

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: $8.1 million
Total administered expenses: $5,976.4 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 structure.

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 2004-05 Budget.

OUTCOME 1 — RESOURCING

Table 2.1 shows how the 2004-05 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

	2003-04 estimated actual $'000		2004-05 budget estimate $'000
Administered appropriations			
Annual appropriations	10		10
Special appropriations	164,930,448		87,822,424
Total administered appropriations	164,930,458	(I1)(1)	87,822,434
Agency appropriations			
Output Group 1.1 - Australian Office of Financial Management			
Output 1.1.1 - Debt management	8,135		8,097
Total revenues from government (appropriations)	8,135	(C1)(1)	8,097
Contributing to price of agency outputs	100%		100%
Total price from agency outputs (Total revenues from government and from other sources)	8,135	(E1)(1)	8,097
Estimated payments from special account balances(2)			
Debt Retirement Reserve Trust Account	297,326		75,005
Total administered special account outflows	297,326		75,005
Total estimated resourcing for Outcome 1 (Total price of outputs and administered appropriations)	164,938,593		87,830,531

	2003-04	2004-05
Average staffing level (number)	38	38

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 1.6.

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, debt administration and the monitoring of conditions in Treasury bond and futures markets.

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 Outcome 1

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, subject to the Government's policies and risk preferences. An efficient Treasury bond market that supports an efficient Treasury bond futures market.
Performance information for agency outputs	
Output Group 1.1 - Australian Office of Financial Management	
Output 1.1.1 - Debt management	Cost of Commonwealth debt portfolio. 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

Feedback will be sought on a regular basis from financial markets and key clients on the effectiveness of debt issuance and the efficiency of the CGS bond and futures markets. The appropriateness of the benchmark portfolio will also be reviewed. Results of evaluations will be presented, as appropriate, 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 2003-04 (estimated actual results), 2004-05 (Budget estimate) and three forward years. The financial statements should be read in conjunction with the accompanying notes.

ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

Departmental

Statement of financial performance

Since inception as a separate agency in July 1999, the AOFM has been developing its resource base and functionality. Substantial progress has been made in achieving best practice in policy, systems and methodology in the areas of financial market operations and risk management. The growth of the AOFM over the past five years has been rapid with expenditure reflecting start up costs including significant investment in agency infrastructure (primarily Information Technology hardware and software), additional staffing and moving to new premises in December 2000. The budget and forward years reflect planned periods of consolidation when revenue and operating expenses are expected to be largely unchanged.

Statement of financial position

The AOFM's net asset (or equity) position is forecast to remain constant over the Budget and forward years, reflecting that current funding levels are expected to be adequate to support the AOFM's operations during this period.

The AOFM forecasts that during the forward estimates period it will need to make renewed capital investment in agency infrastructure. Some further capital expenditure, particularly in relation to systems, both for development and replacement, is expected in the forward estimates period. Sufficient funding has been provided for this future capital investment from accumulated unspent outputs appropriations and equity injections.

Administered

Following the Government's decision, announced in the 2003-04 Budget, to maintain the market in Commonwealth Government Securities (CGS), the AOFM aims to contribute to financial market efficiency by maintaining sufficient Treasury bonds on issue to support the Treasury bond futures market. This will require ongoing issuance of bonds at the middle and long end of the yield curve. The Administered Budget and forward estimates reflect this Government decision.

The AOFM executes interest rate swap transactions to manage the cost and risk of the net debt portfolio according to a benchmark approved by the Treasurer. The Administered Budget and forward estimates incorporate the interest rate swap programme.

The Commonwealth holds surplus funds as term deposits with the Reserve Bank of Australia. These assets are used by the AOFM in managing the Commonwealth's short-term funding requirement. Estimates of these asset holdings have been included in the Administered Budget and forward estimates. However for 2004-05 and the forward years transactions relating to debt management activities (for example, debt and investment activity) have been netted in the statement of financial position and the statement of cash flows due to uncertainty associated with the balance between CGS and financial assets.

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.

Budgeted 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 2004-05.

NOTE OF ADMINISTERED ACTIVITY

Details of transactions administered by the AOFM on behalf of the Australian Government 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 Australian Government.

Note of budgeted administered financial position

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

Note of budgeted administered cash flows

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

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

	2003-04 estimated actual $'000		2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
REVENUES						
Revenues from ordinary activities						
Revenue from government	8,135	(K1)[1]	8,097	8,059	8,132	8,209
Total revenues from ordinary activities	8,135		8,097	8,059	8,132	8,209
EXPENSES						
Expenses from ordinary activities (excluding borrowing costs expense)						
Employees	4,189		4,238	4,300	4,364	4,435
Suppliers	3,191		3,104	3,004	3,014	3,024
Depreciation and amortisation	755		755	755	754	750
Total expenses from ordinary activities (excluding borrowing costs expense)	8,135		8,097	8,059	8,132	8,209
Borrowing costs expense	-		-	-	-	-
Operating surplus or (deficit) from ordinary activities	-		-	-	-	-

1. K1 shows the link back to Table 1.1.

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
ASSETS					
Financial assets					
Cash	1,365	2,307	3,252	4,185	2,118
Receivables	4,458	4,458	4,458	4,458	4,458
Total financial assets	5,823	6,765	7,710	8,643	6,576
Non-financial assets					
Infrastructure, plant and equipment	1,080	829	578	328	2,328
Intangibles	1,841	1,337	833	329	579
Other	31	31	31	31	31
Total non-financial assets	2,952	2,197	1,442	688	2,938
Total assets	8,775	8,962	9,152	9,331	9,514
LIABILITIES					
Provisions					
Employees	1,108	1,295	1,485	1,664	1,847
Other	277	277	277	277	277
Total provisions	1,385	1,572	1,762	1,941	2,124
Total liabilities	1,385	1,572	1,762	1,941	2,124
EQUITY					
Parent entity interest					
Contributed equity	3,423	3,423	3,423	3,423	3,423
Reserves	138	138	138	138	138
Retained surpluses or accumulated deficits	3,829	3,829	3,829	3,829	3,829
Total parent entity interest	7,390	7,390	7,390	7,390	7,390
Total equity	7,390	7,390	7,390	7,390	7,390
Current assets	1,396	2,338	3,283	4,216	2,149
Non-current assets	7,379	6,624	5,869	5,115	7,365
Current liabilities	532	589	648	694	741
Non-current liabilities	853	983	1,114	1,247	1,383

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
OPERATING ACTIVITIES					
Cash received					
Appropriations	8,135	8,097	8,059	8,132	8,209
Total cash received	8,135	8,097	8,059	8,132	8,209
Cash used					
Employees	4,005	4,051	4,110	4,185	4,252
Suppliers	3,219	3,104	3,004	3,014	3,024
Total cash used	7,224	7,155	7,114	7,199	7,276
Net cash from or (used by) operating activities	911	942	945	933	933
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	23	-	-	-	3,000
Total cash used	23	-	-	-	3,000
Net cash from or (used by) investing activities	(23)	-	-	-	(3,000)
FINANCING ACTIVITIES					
Cash received					
Appropriations - contributed equity	23	-	-	-	-
Total cash received	23	-	-	-	-
Net cash from or (used by) financing activities	23	-	-	-	-
Net increase/(decrease) in cash held	911	942	945	933	(2,067)
Cash at the beginning of the reporting period	454	1,365	2,307	3,252	4,185
Cash at the end of the reporting period	1,365	2,307	3,252	4,185	2,118

Table 3.4: Agency Capital Budget Statement

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
PURCHASE OF NON-CURRENT ASSETS					
Funded by capital appropriations	23	-	-	-	-
Funded internally by agency resources	-	-	-	-	3,000
Total	23	-	-	-	3,000

Table 3.5: Agency Non-financial Assets — Summary of Movement (Budget year 2004-05)

	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	-	-	-	1,080	-	1,841	-	2,921
Additions	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Net revaluation increments/decrements	-	-	-	-	-	-	-	-
Recoverable amount write-downs	-	-	-	-	-	-	-	-
Depreciation/amortisation expense	-	-	-	(251)	-	(504)	-	(755)
Other movements	-	-	-	-	-	-	-	-
Carrying amount at the end of year	-	-	-	829	-	1,337	-	2,166
Represented by								
Self funded	-	-	-	-	-	-	-	-
Appropriations	-	-	-	-	-	-	-	-
Total represented by	-	-	-	-	-	-	-	-

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
REVENUES					
Non-taxation					
Interest	2,591,803	2,705,420	2,709,478	3,078,894	3,532,517
Net foreign exchange gains	172,452	-	-	-	-
Total non-taxation	2,764,255	2,705,420	2,709,478	3,078,894	3,532,517
Total revenues administered on behalf of Government	2,764,255	2,705,420	2,709,478	3,078,894	3,532,517
EXPENSES					
Grants	36,704	54,340	195,690	-	-
Interest and financing costs	5,589,324	5,922,099	5,711,955	5,488,031	5,140,566
Total expenses administered on behalf of Government	5,626,028	5,976,439	5,907,645	5,488,031	5,140,566

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
ASSETS					
Financial assets					
Cash	181	181	181	181	181
Receivables	3,800,794	3,643,580	3,428,456	3,341,923	3,253,272
Investments	10,884,000	-	-	-	-
Accrued revenues	107,220	66,006	66,446	95,773	121,142
Total financial assets	14,792,195	3,709,767	3,495,083	3,437,877	3,374,595
Total assets administered on behalf of Government	14,792,195	3,709,767	3,495,083	3,437,877	3,374,595
LIABILITIES					
Interest bearing liabilities					
Commonwealth securities	55,397,000	45,056,000	44,718,000	31,335,000	17,235,000
Total interest bearing liabilities	55,397,000	45,056,000	44,718,000	31,335,000	17,235,000
Payables					
Other payables	3,185,000	3,364,000	2,774,000	2,936,000	3,143,000
Total payables	3,185,000	3,364,000	2,774,000	2,936,000	3,143,000
Total liabilities administered on behalf of Government	58,582,000	48,420,000	47,492,000	34,271,000	20,378,000

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
OPERATING ACTIVITIES					
Cash received					
Interest	2,579,664	2,680,010	2,700,854	3,077,976	3,591,601
Cash from Official Public Account	5,617,277	5,909,764	6,737,339	5,605,573	5,260,513
Total cash received	8,196,941	8,589,774	9,438,193	8,683,549	8,852,114
Cash used					
Grant payments	36,704	54,340	195,690	-	-
Interest and financing payments	5,580,573	5,855,424	6,541,649	5,605,573	5,260,513
Cash to Official Public Account	2,579,664	2,680,010	2,700,854	3,077,976	3,591,601
Total cash used	8,196,941	8,589,774	9,438,193	8,683,549	8,852,114
Net cash from or (used by) operating activities	-	-	-	-	-
INVESTING ACTIVITIES					
Cash received					
Housing Loan repayments	79,822	82,209	84,406	86,533	88,651
Total cash received	79,822	82,209	84,406	86,533	88,651
Cash used					
Cash to Official Public Account	79,822	82,209	84,406	86,533	88,651
Total cash used	79,822	82,209	84,406	86,533	88,651
Net cash from investing activities	-	-	-	-	-
FINANCING ACTIVITIES					
Cash received					
Proceeds from borrowing(1)	129,113,493	82,642,949	77,494,878	175,067,133	256,316,494
Cash from Official Public Account	159,304,430	81,845,995	77,454,282	188,199,000	270,174,000
Swap principal(2)	29,037,562	-	-	-	-
Total cash received	317,455,485	164,488,944	154,949,160	363,266,133	526,490,494
Cash used					
Repayments of debt(1)	129,936,407	81,845,995	77,454,282	188,199,000	270,174,000
Cash to Official Public Account	158,151,055	82,642,949	77,494,878	175,067,133	256,316,494
Swap principal(2)	29,368,023	-	-	-	-
Total cash used	317,455,485	164,488,944	154,949,160	363,266,133	526,490,494
Net cash from or (used by) financing activities	-	-	-	-	-
Net increase/(decrease) in cash held	-	-	-	-	-
Cash at beginning of reporting period	181	181	181	181	181
Cash at end of reporting period	181	181	181	181	181

1. Includes investment activity.
2. Includes forward foreign exchange contracts.

NOTES TO THE FINANCIAL STATEMENTS

Basis of accounting

The financial statements have been prepared on an accrual basis and are 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.

However, for the purposes of disclosing all cash flows through AOFM's administered bank accounts, 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*.

Budgeted agency and administered financial statements

The budgeted financial statements contain estimates prepared in accordance with the requirements of the Government's financial budgeting and reporting framework, including the principles of Australian Accounting Standards and Statements of Accounting Concepts, as well as specific guidelines issued by the Department of Finance and Administration.

Under the Commonwealth'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, 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 to Government.

- 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 repayment of interest on lapsed coupons not supported by special appropriation.

Special appropriations continue under the accrual budgeting framework and fund the majority of administered payments made by the AOFM, including debt redemption and financial investment activity.

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 2004-05 budget and forward years to achieve a breakeven operating result. Consequently the appropriation revenues from Government represent the funding required to meet all expenses.

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
Interest					
Interest on housing agreements	162,852	159,477	155,985	152,382	148,668
Interest on State and Northern Territory debt	19,009	10,847	633	-	-
Interest from other sources	2,409,942	2,535,096	2,552,860	2,926,512	3,383,849
Total interest	2,591,803	2,705,420	2,709,478	3,078,894	3,532,517

Interest from other sources includes interest from swaps and investments.

Expenses — grants

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
Grants					
Grants to State and Northern Territory Governments	36,704	54,340	195,690	-	-
Total grants	36,704	54,340	195,690	-	-

Expenses — interest and financing costs

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
Interest and financing costs					
Interest on Government securities	3,972,372	3,865,629	3,604,611	3,545,877	3,592,305
Interest on swaps	1,570,046	2,030,616	2,093,401	1,939,732	1,547,628
Interest on other debt	41,533	25,432	13,521	2,000	211
Net repurchase premia	4,951	-	-	-	-
Other financing costs	422	422	422	422	422
Total interest and financing costs	5,589,324	5,922,099	5,711,955	5,488,031	5,140,566

Assets and Liabilities

Debt — Commonwealth securities

Commonwealth securities represent the book value of government securities on issue, net of investments (except for 2003-04 where they are reported on a gross basis).

Financial assets — receivables

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
Receivables					
Loans to State and Northern Territory Governments	3,800,772	3,643,558	3,428,434	3,341,901	3,253,250
Other	22	22	22	22	22
Total receivables	3,800,794	3,643,580	3,428,456	3,341,923	3,253,272

Section 4: Purchaser/provider and cost recovery arrangements

PURCHASER/PROVIDER ARRANGEMENTS

The Australian Office of Financial Management (AOFM) does not have purchaser/provider arrangements in place.

COST RECOVERY ARRANGEMENTS

The AOFM does not carry out significant ongoing cost recovery arrangements. Consequently, the AOFM has not produced a Cost Recovery Impact Statement.