AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

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Section 1: Agency overview and resources

1.1 STRATEGIC DIRECTION

The Australian Office of Financial Management (AOFM) was established in 1999 to enhance the management of Australian Government debt and financial assets, to reduce debt servicing costs and to improve net worth. This role has expanded over time as the AOFM has taken on new responsibilities for maintaining and monitoring the efficiency of the Treasury Bond market, managing a wider range of financial assets and providing support for other sovereign debt managers in the region.

In recent years debt issuance by the AOFM has been undertaken solely with the objective of maintaining the Treasury Bond and Treasury Bond Futures markets. This has been because successive budget surpluses have removed the need to borrow to fund the budget. Since 2003, issuance has been maintained to support the continued operation of these markets as they allow market participants to better manage their interest rate risk and thereby contribute to a lower cost of capital in Australia. They also help strengthen the financial system against the potential impacts of financial shocks.

The AOFM has managed the cost and risk inherent in the debt on issue by executing domestic interest rate swaps to achieve lower debt servicing costs, while at the same time keeping the variability of debt servicing costs at an acceptable level. For several years now structural and cyclical factors have contributed to a flattening of the yield curve and reduced the potential to make savings in debt servicing costs. Global credit tightening in financial markets since August 2007 has further reduced the opportunities to make savings through interest rate swaps. In response to these developments over recent years, the AOFM has reduced the volume of swaps undertaken and changed its benchmark closer to a portfolio structure that would result from debt issuance without swaps. The portfolio management benchmark and strategy, including the interest rate swap program, is reviewed annually. Following its latest review, in April 2008, the AOFM has no plans to execute interest rate swaps in 2008-09.

The AOFM also manages the overall level of cash in the Official Public Account with the Reserve Bank of Australia (RBA) to ensure that the government is able to meet its financial obligations as and when they fall due. Other objectives are to minimise the cost of funding the balances and to invest excess balances efficiently. It does this through making short-term deposits with the RBA to offset fluctuations in the daily flows in and out of the government's accounts with minimum use of the government's overdraft facility with the RBA.

The AOFM currently acts as an agent for the Department of Broadband, Communications and the Digital Economy (DBCDE) in making investments for the Communications Fund. These investments and their earnings are reported by DBCDE and not the AOFM.

1.2 AGENCY RESOURCE STATEMENT

Table 1.1 shows the total agency resources from all sources. The table summarises how resources will be applied to the AOFM.

Table 1.1: Australian Office of Financial Management resource statement — Budget estimates for 2008-09 as at Budget May 2008

		Estimate of prior year amounts available in 2008-09 +	Proposed at Budget =	Total estimate	Estimated appropriation available
		2008-09	2008-09	2008-09	2007-08
		$'000	$'000	$'000	$'000
Ordinary annual services					
Departmental outputs					
Departmental outputs		12,227 [3]	8,467 [1]	20,694	8,489
Receipts from other sources (s31)		-	867 [2]	867	1,201
Total departmental outputs		12,227	9,334	21,561	9,690
Administered expenses					
Outcome 1		-	10	10	10
Total administered expenses		-	10	10	10
Total ordinary annual services	**A**	**12,227**	**9,344**	**21,571**	**9,700**
Other services					
Departmental non-operating					
Equity injections		949	-	949	-
Total other services	**B**	**949**	**-**	**949**	**-**
Total available annual appropriations (A+B)		**13,176**	**9,344**	**22,520**	**9,700**
Special appropriations					
Commonwealth Inscribed Stock Act 1911		-	8,543,945	8,543,945	6,449,493
Financial Management & Accountability Act 1997		-	292,166,000	292,166,000	292,166,000
Loans Securities Act 1919		-	1,569,429	1,569,429	1,805,836
Snowy Hydro Corporatisation Act 1997		-	4,165	4,165	17,146
Total special appropriations	**C**	**-**	**302,283,539**	**302,283,539**	**300,438,475**
Total appropriations excluding special accounts (A+B+C)		**13,176**	**302,292,883**	**302,306,059**	**300,448,175**

Table 1.1: Australian Office of Financial Management resource statement — Budget estimates for 2008-09 as at Budget May 2008 (continued)

		Estimate of prior year amounts available in 2008-09 $'000	+	Proposed at Budget 2008-09 $'000	=	Total estimate 2008-09 $'000	Estimated appropriation available 2007-08 $'000
Special accounts[4]							
Opening balance		422		-		422	-
Total special accounts	**D**	**422**		**-**		**422**	**-**
Total net resourcing for AOFM (A+B+C+D)		**13,598**		**302,292,883**		**302,306,481**	**300,448,175**
Represented by:							
Departmental		*13,176*		*9,334*		*22,510*	*9,690*
Administered		*422*		*302,283,549*		*302,283,971*	*300,438,485*

1. Appropriation Bill (No.1) 2008-09.
2. Receipts received under s31 of the *Financial Management and Accountability Act 1997.*
3. Estimated adjusted balance carried forward from previous year for annual appropriations.
4. Estimated opening balance for special accounts. For further detail on special accounts see Table 3.1.3.

1.3 BUDGET MEASURES

Table 1.2: Australian Office of Financial Management 2008-09 Budget measures

The AOFM does not have any Budget measures for 2008-09.

Section 2: Outcomes and planned performance

2.1 OUTCOMES AND PERFORMANCE INFORMATION

The Australian Government requires agencies to measure their intended and actual performance in terms of outcomes. Government outcomes are the results, impacts or consequences of actions by the Government on the Australian community.

2.1.1 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

Outcome 1 strategy

The AOFM contributes to its outcome through its output — debt management. It issues Treasury Bonds, executes interest rate swaps and invests in term deposits with the RBA. It also undertakes risk management activities, compliance activities, financial reporting, debt administration and the monitoring of conditions in Treasury Bond and Treasury Bond Futures markets.

The AOFM will issue long-term fixed interest debt in accordance with government policy to maintain the efficiency of the Treasury Bond and Treasury Bond Futures markets. It will issue bonds with tenors chosen to support the 3 year and 10 year Treasury Bond Futures markets.

The AOFM executes domestic interest rate swaps to achieve lower public debt servicing costs arising from issuing bonds for market efficiency purposes. In response to market conditions, the AOFM currently has no plans to execute interest rate swaps in 2008-09.

Outcome 1 resource statement

Table 2.1 provides additional detail of Budget appropriations and the total resourcing for outcome 1.

Table 2.1: Total resources for outcome 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	2008-09 Total estimate of available resources $'000	2007-08 Estimated actual $'000
Output group 1.1 - Australian Office of Financial Management		
Departmental outputs		
Output 1.1.1 - Debt management	8,467	8,489
Receipts from other sources (s31)	867	1,201
Administered items		
Annual Appropriation Bill 1 (Ordinary annual services)	10	10
Special appropriations		
Commonwealth Inscribed Stock Act 1911	8,543,945	6,449,493
Financial Management and Accountability Act 1997	292,166,000	292,166,000
Loans Securities Act 1919	1,569,429	1,805,836
Snowy Hydro Corporatisation Act 1997	4,165	17,146
Total resources for outcome 1	302,292,883	300,448,175

	2008-09	2007-08
Average staffing level (number)	33	33

Contributions to outcome 1

Output group 1.1 — Australian Office of Financial Management	
Components of output group 1.1 are: Output 1.1.1 — Debt management An efficient Treasury Bond market that supports an efficient Treasury Bond Futures market. Achievement of the Australian Government's financing task in a cost-effective manner, subject to acceptable risk.	
Output 1.1.1 — Debt management	
Key performance indicators	2008-09 target
Efficient Treasury Bond and Treasury Bond Futures markets.	Maintaining an active dialogue with price makers, the RBA, the Australian Stock Exchange and the Australian Financial Markets Association's Debt Securities Committee. Continual monitoring of key market efficiency indicators (such as bid/ask spreads and repurchase market indicators).
Treasury Bond issuance is undertaken efficiently.	The average spread of the weighted issue yield above the secondary market yield is consistent with the 10 year average. The range of accepted bids is consistent with the 10 year average. The times covered ratio is consistent with the 10 year average.
Minimise debt servicing costs subject to acceptable risk.	Maintaining the debt portfolio within benchmark portfolio modified duration and short-dated exposure limits.
Efficient management of the Australian Government's cash balances.	The 91 day moving average of the Australian Government's cash balances is within operational limits and within the Ministerial limit throughout the year. Use of overdraft facility only to cover unexpected events.

Section 3: Explanatory tables and budgeted financial statements

Section 3 presents budgeted financial statements which provide a comprehensive snapshot of agency finances for the budget year 2008-09. It explains how budget plans are incorporated into the financial statements and provides details of the special account managed by the AOFM.

3.1 EXPLANATORY TABLES

3.1.1 Reconciliation of total available appropriation and outcomes

The Agency Resource Statement (Table 1.1) details the total available appropriation to the AOFM from all sources. For departmental operating appropriations (outputs) this includes carry-forward amounts as well as amounts appropriated at budget. As the AOFM incurs and is funded for future liabilities, generally depreciation and employee entitlements, the total amount of departmental operating appropriation available to the AOFM is unlikely to be fully utilised in the budget year. The difference between the agency resource statement and the sum of all payments made at the departmental outputs level is the expected carry-forward amount of resources for the 2009-10 budget year, including amounts related to meeting future obligations to maintain the AOFM's asset base and to meet employee entitlement liabilities.

Table 3.1.1: Reconciliation of total available appropriation and outcomes

	$'000
Total available departmental operating appropriation for 2008-09 (outputs only)	21,561
Less estimated payments in 2008-09	9,213
Estimated departmental outputs carried forward and available for 2009-10	12,348
Represented by:	
Cash at bank and output appropriations receivable as at 30 June 2009	*12,348*

3.1.2 Movement of administered funds between years

Table 3.1.2: Movement of administered funds between years

The AOFM has not moved any administered funds between years.

3.1.3 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* (FMA Act) or under separate enabling legislation. The AOFM operates one special account, the Debt Retirement

Reserve Trust Account. Table 3.1.3 shows the expected additions (receipts) and reductions (payments) for the AOFM's special account in 2007-08 and 2008-09.

Table 3.1.3: Estimates of special account cash flows and balances

	Outcome	Opening balance **2008-09** *2007-08* $'000	Receipts **2008-09** *2007-08* $'000	Payments **2008-09** *2007-08* $'000	Adjustments **2008-09** *2007-08* $'000	Closing balance **2008-09** *2007-08* $'000
Debt Retirement Reserve Trust Account	1	**422** *422*	**-** *-*	**-** *-*	**-** *-*	**422** *422*
Total special accounts 2008-09 Budget estimate		**422**	**-**	**-**	**-**	**422**
Total special accounts 2007-08 estimate actual		*422*	-	-	-	*422*

Until July 1990, the Australian Government 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 Australian Government also borrowed on behalf of the State and Territory Governments to raise new borrowings. In addition there are outstanding balances of various loans raised by the State Governments.

The annual funding of the redemption of the State and Territory allocated debt is governed by the *Financial Agreement Act 1994* which requires the Australian Government to establish and maintain the Debt Retirement Reserve Trust Account (DRRTA) for the States and the Northern Territory. Moneys 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.

3.1.4 Australian Government Indigenous Expenditure

Table 3.1.4: 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

There are no differences between agency resourcing and financial statements.

3.2.2 Analysis of budgeted financial statements

Departmental

The budget and forward estimates reflect an expectation that the AOFM's resourcing levels are to remain relatively stable over the next four years. However, 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. This expenditure will be met from unspent output appropriations carried forward from previous financial years.

Administered

Following the former government's decision in the 2003-04 Budget to maintain the market in Australian Government Securities, the volume of Treasury Bonds on issue during the budget and forward estimates period is expected to be between $43 billion and $50 billion. In the 2003-04 Budget, the former government also suspended new issuance of Treasury Indexed Bonds. The August 2010 Treasury Indexed Bond series will mature in the 2010-11 financial year (at an estimated maturity value of $2,310 million).

Projected government surpluses in the budget and forward estimates that have not been earmarked for transfer to special purpose funds, are assumed to be held by the AOFM on deposit with the RBA.

3.2.3 Budgeted financial statements tables

Table 3.2.1: Budgeted departmental income statement (for the period ended 30 June)

	Estimated actual 2007-08 $'000	Budget estimate 2008-09 $'000	Forward estimate 2009-10 $'000	Forward estimate 2010-11 $'000	Forward estimate 2011-12 $'000
INCOME					
Revenue					
Revenues from Government	8,489	8,467	8,579	8,659	8,749
Goods and services	1,201	867	867	867	867
Total income	9,690	9,334	9,446	9,526	9,616
EXPENSE					
Employees	4,797	5,029	5,271	5,537	5,781
Suppliers	3,384	3,855	3,725	3,539	3,310
Depreciation and amortisation	450	450	450	450	525
Total expenses	8,631	9,334	9,446	9,526	9,616
Surplus (deficit) attributable to the Australian Government	1,059	-	-	-	-

Prepared on an Australian Accounting Standards basis.

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

	Estimated actual 2007-08 $'000	Budget estimate 2008-09 $'000	Forward estimate 2009-10 $'000	Forward estimate 2010-11 $'000	Forward estimate 2011-12 $'000
ASSETS					
Financial assets					
Cash and equivalents	2,096	2,217	2,404	3,111	1,290
Trade and other receivables[1]	11,284	11,284	11,284	11,284	10,884
Total financial assets	13,380	13,501	13,688	14,395	12,174
Non-financial assets					
Infrastructure, plant and equipment	609	459	709	459	209
Intangibles	325	525	325	125	2,850
Other	72	72	72	72	72
Total non-financial assets	1,006	1,056	1,106	656	3,131
Total assets	14,386	14,557	14,794	15,051	15,305
LIABILITIES					
Provisions					
Employees	1,345	1,518	1,754	2,009	2,263
Other	135	135	135	135	135
Total provisions	1,480	1,653	1,889	2,144	2,398
Payables					
Suppliers	156	154	155	157	157
Total payables	156	154	155	157	157
Total liabilities	1,636	1,807	2,044	2,301	2,555
Net assets	12,750	12,750	12,750	12,750	12,750
EQUITY					
Contributed equity	3,423	3,423	3,423	3,423	3,423
Retained surpluses or accumulated deficits	9,327	9,327	9,327	9,327	9,327
Total equity	12,750	12,750	12,750	12,750	12,750
Current assets	2,300	2,421	2,608	3,715	1,494
Non-current assets	12,086	12,136	12,186	11,336	13,811
Current liabilities	1,313	1,453	1,655	1,875	2,089
Non-current liabilities	323	354	389	426	466

1. Included in this balance are $10.1 million in undrawn output appropriation and $0.9 million in undrawn equity injections from 30 June 2008 to 30 June 2011. As of 30 June 2012, undrawn output appropriation is estimated at $9.7 million and undrawn equity injections are estimated at $0.9 million.

Prepared on an Australian Accounting Standards basis.

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

	Estimated actual 2007-08 $'000	Budget estimate 2008-09 $'000	Forward estimate 2009-10 $'000	Forward estimate 2010-11 $'000	Forward estimate 2011-12 $'000
OPERATING ACTIVITIES					
Cash received					
Appropriations	8,489	8,467	8,579	8,659	9,149
Other	1,201	867	867	867	867
Total cash received	9,690	9,334	9,446	9,526	10,016
Cash used					
Employees	4,523	4,858	5,034	5,281	5,527
Suppliers	3,383	3,855	3,725	3,538	3,310
Total cash used	7,906	8,713	8,759	8,819	8,837
Net cash from or (used by) operating activities	1,784	621	687	707	1,179
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	-	500	500	-	3,000
Total cash used	-	500	500	-	3,000
Net cash from or (used by) investing activities	-	(500)	(500)	-	(3,000)
Net increase or (decrease) in cash held	1,784	121	187	707	(1,821)
Cash at the beginning of the reporting period	312	2,096	2,217	2,404	3,111
Cash at the end of the reporting period	2,096	2,217	2,404	3,111	1,290

Prepared on an Australian Accounting Standards basis.

Table 3.2.4: Departmental statement of changes in equity — summary of movement (Budget year 2008-09)

	Retained earnings $'000	Asset revaluation reserve $'000	Other reserves $'000	Contributed equity/ capital $'000	Total equity $'000
Opening balance as at 1 July 2008					
Balance carried forward from previous period	9,327	-	-	3,423	12,750
Estimated closing balance as at 30 June 2009	9,327	-	-	3,423	12,750

Prepared on an Australian Accounting Standards basis.

Table 3.2.5: Schedule of budgeted income and expenses administered on behalf of Government (for the period ended 30 June)

	Estimated actual 2007-08 $'000	Budget estimate 2008-09 $'000	Forward estimate 2009-10 $'000	Forward estimate 2010-11 $'000	Forward estimate 2011-12 $'000
INCOME ADMINISTERED ON BEHALF OF GOVERNMENT					
Revenue before re-measurements					
Non-taxation					
Interest	2,960,577	3,476,745	4,094,401	4,781,300	5,609,961
Total revenues before re-measurements	2,960,577	3,476,745	4,094,401	4,781,300	5,609,961
EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT					
Interest and financing costs	5,342,507	5,019,549	4,677,535	4,239,603	3,917,283
Total expenses before re-measurements	5,342,507	5,019,549	4,677,535	4,239,603	3,917,283
Operating result before re-measurements	(2,381,930)	(1,542,804)	(583,134)	541,697	1,692,678
Re-measurements					
Net market valuation gains/losses	(662,215)	198,845	174,776	154,152	147,627
Total re-measurements	(662,215)	198,845	174,776	154,152	147,627
Net Income	(3,044,145)	(1,343,959)	(408,358)	695,849	1,840,305

Prepared on an Australian Accounting Standards basis.

Table 3.2.6: Schedule of budgeted assets and liabilities administered on behalf of Government (as at 30 June)

	Estimated actual 2007-08 $'000	Budget estimate 2008-09 $'000	Forward estimate 2009-10 $'000	Forward estimate 2010-11 $'000	Forward estimate 2011-12 $'000
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Cash and cash equivalents	867	867	867	867	867
Receivables	2,063,755	2,133,297	2,196,581	2,246,154	2,270,771
Investments (s39 FMA Act)	24,268,000	44,403,000	61,871,000	72,423,000	90,306,000
Total financial assets	26,332,622	46,537,164	64,068,448	74,670,021	92,577,638
Total assets administered on behalf of Government	26,332,622	46,537,164	64,068,448	74,670,021	92,577,638
LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT					
Interest bearing liabilities					
Commonwealth Government Securities	59,223,000	59,360,000	58,780,000	50,770,000	50,826,000
Total liabilities administered on behalf of Government	59,223,000	59,360,000	58,780,000	50,770,000	50,826,000

Prepared on an Australian Accounting Standards basis.

Table 3.2.7: Schedule of budgeted administered cash flows (for the period ended 30 June)

	Estimated actual 2007-08 $'000	Budget estimate 2008-09 $'000	Forward estimate 2009-10 $'000	Forward estimate 2010-11 $'000	Forward estimate 2011-12 $'000
OPERATING ACTIVITIES					
Cash received					
Interest	2,972,038	3,478,548	4,096,515	4,778,776	5,570,479
Total cash received	2,972,038	3,478,548	4,096,515	4,778,776	5,570,479
Cash used					
Interest paid	5,250,224	5,039,251	4,519,830	4,986,122	3,798,649
Total cash used	5,250,224	5,039,251	4,519,830	4,986,122	3,798,649
Net cash from or (used by) operating activities	(2,278,186)	(1,560,703)	(423,315)	(207,346)	1,771,830
INVESTING ACTIVITIES					
Cash received					
Repayments of advances	88,651	91,260	93,515	95,725	97,872
Net cash from or (used by) investing activities	88,651	91,260	93,515	95,725	97,872
FINANCING ACTIVITIES					
Cash received					
Proceeds from borrowing	4,962,227	5,225,942	4,963,158	4,970,897	4,959,986
Term deposit maturities	288,315,000	272,096,000	274,722,000	281,641,000	274,328,000
Total cash received	293,277,227	277,321,942	279,685,158	286,611,897	279,287,986
Cash used					
Repayment of borrowings	2,929,978	5,098,000	5,709,000	12,250,000	5,003,000
Term deposit investments	292,166,000	292,166,000	292,166,000	292,166,000	292,166,000
Total cash used	295,095,978	297,264,000	297,875,000	304,416,000	297,169,000
Net cash from or (used by) financing activities	(1,818,751)	(19,942,058)	(18,189,842)	(17,804,103)	(17,881,014)
Net increase or (decrease) in cash held	(4,008,286)	(21,411,501)	(18,519,642)	(17,915,724)	(16,011,312)
Cash at beginning of reporting period	867	867	867	867	867
Cash from Official Public Account for - appropriations	300,417,524	302,368,364	302,479,260	309,460,522	301,031,369
Cash to Official Public Account for - appropriations	296,409,238	280,956,863	283,959,618	291,544,798	285,020,057
Cash at end of reporting period	867	867	867	867	867

Prepared on an Australian Accounting Standards basis.

3.2.4 Notes to the financial statements

Basis of accounting

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 international financial reporting 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.

On behalf of the Department of Broadband, Communications and the Digital Economy (DBCDE), the AOFM currently manages the investments made by the Communications Fund. These investments and their earnings are reported by DBCDE and not the AOFM.

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, 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; and

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

Administered internal transactions

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

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

Goods and services tax (GST)

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

Budgeted departmental income statement

Appropriations

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

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;
- make future asset replacements; and
- repay liabilities.

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

Administered schedule of budgeted income and expenses

Non-taxation revenue — interest

	Estimated actual 2007-08 $'000	Budget estimate 2008-09 $'000	Forward estimate 2009-10 $'000	Forward estimate 2010-11 $'000	Forward estimate 2011-12 $'000
Interest					
Interest on housing agreements	170,299	166,358	162,258	158,018	153,637
Interest from other sources	2,790,278	3,310,387	3,932,143	4,623,282	5,456,324
Total interest	2,960,577	3,476,745	4,094,401	4,781,300	5,609,961

Note: Interest from other sources includes interest from swaps and investments.

Expenses — interest and financing costs

	Estimated actual 2007-08 $'000	Budget estimate 2008-09 $'000	Forward estimate 2009-10 $'000	Forward estimate 2010-11 $'000	Forward estimate 2011-12 $'000
Interest					
Interest on Commonwealth Government Securities	3,536,525	3,450,955	3,400,422	3,248,713	3,142,304
Interest on swaps	1,804,836	1,568,429	1,277,113	990,890	774,979
Other	1,146	165	-	-	-
Total interest and financing costs	5,342,507	5,019,549	4,677,535	4,239,603	3,917,283

Net market valuation gains/losses

Net market valuation gains/losses represents the estimated unrealised fair value gains or losses on the net debt portfolio. This valuation gain or loss 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 — receivables

	Estimated actual 2007-08 $'000	Budget estimate 2008-09 $'000	Forward estimate 2009-10 $'000	Forward estimate 2010-11 $'000	Forward estimate 2011-12 $'000
Receivables					
Loans to State and Northern Territory Governments[1]	2,837,298	2,767,558	2,695,424	2,620,920	2,544,075
Swaps[2]	(773,543)	(634,261)	(498,843)	(374,766)	(273,304)
Total receivables	2,063,755	2,133,297	2,196,581	2,246,154	2,270,771

1. At amortised cost.
2. At fair value.

Financial assets — investments

The AOFM, on behalf of the Australian Government, holds surplus funds as term deposits with the RBA. 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

Commonwealth Government Securities represent the fair value of government securities on issue, including Treasury Bonds and Treasury Indexed Bonds.

	Estimated actual 2007-08 $'000	Budget estimate 2008-09 $'000	Forward estimate 2009-10 $'000	Forward estimate 2010-11 $'000	Forward estimate 2011-12 $'000
Commonwealth Government Securities					
Treasury Bonds	49,717,000	49,689,000	48,988,000	43,225,000	43,205,000
Treasury Indexed Bonds	9,484,000	9,653,000	9,774,000	7,527,000	7,603,000
Other securities	22,000	18,000	18,000	18,000	18,000
Total	59,223,000	59,360,000	58,780,000	50,770,000	50,826,000