

AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

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AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Section 1: Overview

The Australian Office of Financial Management is responsible for the management of the Australian Government's debt and financial assets entrusted to it.

The AOFM aims to manage its net debt portfolio at least cost over the medium term, subject to an acceptable level of risk. It also contributes to the operation of financial markets by supporting efficient Treasury Bond and Treasury Bond futures markets. These markets allow participants to better manage their interest rate risks and to contribute to a lower cost of capital in Australia.

The AOFM issues long-term fixed interest debt to maintain the efficiency of the Treasury Bond and Treasury Bond futures markets. It issues bonds with tenors chosen to support the 3-year and 10-year Treasury Bond futures baskets. The current strategy is to issue approximately \$5 billion in each bond line.

The AOFM manages the cost and risk inherent in the debt on issue, by executing domestic interest rate swaps to achieve lower public debt servicing costs, while at the same time keeping the expected variability of cost to an acceptable level. It is guided in this task by reference to a benchmark portfolio.

Approximately 15 per cent of the long-term debt portfolio is currently indexed debt. The interest rate risk inherent in this debt is taken into account in setting the portfolio benchmark.

The AOFM also manages the overall level of cash in the Official Public Account with the Reserve Bank of Australia (RBA). 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.

The AOFM currently acts as an agent for the Department of Communications, Information Technology and the Arts (DCITA) in making investments for the Communications Fund. These investments and their earnings are reported by DCITA and not the AOFM.

1.1 SUMMARY OF AGENCY CONTRIBUTIONS TO OUTCOMES

The products and services delivered by the agency (outputs and administered policies, products and services) which contribute to the achievement of the outcome for the Australian Office of Financial Management are summarised in Table 1.1 below and Figure 2 on page 117.

Table 1.1: Contribution to outcomes

Outcome	Description	Output group
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	The AOFM aims to manage its net debt portfolio at least cost over the medium-term, subject to an acceptable level of risk. It also contributes to the operation of financial markets by supporting efficient Treasury Bond and Treasury Bond futures markets.	Output Group 1.1 Australian Office of Financial Management

Section 2: Resources for 2007-08

2.1 APPROPRIATIONS AND OTHER RESOURCES

The total resourcing for the Australian Office of Financial Management (AOFM) in the 2007-08 Budget is \$240,956.2 million, represented by departmental appropriation of \$8.5 million, administered appropriation of \$240,946.8 million and departmental revenues of \$0.9 million. The administered appropriation comprises two components, appropriation for expenses of \$5,163.8 million and debt redemption and financial investment activity of \$235,783.0 million.

Table 2.1 shows the total resources from all origins for 2007-08, including appropriations. The table summarises how revenue will be applied by outcome and by administered and departmental classification.

Table 2.1: Appropriations and other resources 2007-08

Australian Office of Financial Management	Departmental				Administered				Total \$'000	
	Appropriation Bill No. 1 \$'000	Appropriation Bill No. 2 \$'000	Special Appropriation \$'000	Other resources \$'000	Appropriation Bill No. 1 \$'000	Appropriation SPPs \$'000	Other \$'000	Special Appropriation resources \$'000		
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	8,528	-	-	867	10	-	-	5,163,771	-	5,173,176
Special capital appropriation	-	-	-	-	-	-	-	235,783,000	-	235,783,000
Total	8,528	-	-	867	10	-	-	240,946,771	-	240,956,176

2.2 2007-08 BUDGET MEASURES

The AOFM does not have any 2007-08 Budget measures.

2.3 OTHER RESOURCES AVAILABLE TO BE USED

The following table provides details of estimated administered and departmental revenues from sources other than appropriations for the AOFM for 2006-07 (estimated actual) and 2007-08 (budget estimate). Departmental revenues are eligible items under the AOFM's net appropriation agreement under section 31 of the *Financial Management and Accountability Act 1997*, and as a result can be applied to the AOFM's departmental activities. The AOFM's administered revenues are not available to meet financial commitments of the AOFM and are returned to the Official Public Account.

Table 2.3: Other revenues

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000
Departmental other revenues		
Net annotated (section 31) receipts	1,035	867
Total departmental other revenues	1,035	867
Administered other revenues		
<i>Financial Management and Accountability Act 1997</i> - Interest on financial assets	1,089,031	1,095,000
Housing Agreements, Northern Territory Housing Agreement and Housing Assistance Acts - Interest on advances to States and Northern Territory	73,069	72,346
<i>Loans Securities Act 1919</i> - Interest on swaps	1,812,765	1,603,683
States (Works and Housing Assistance) Acts - Interest on advances to States	100,751	97,719
War Service Lands Settlements Acts - Interest on advances to States	289	234
Total administered other revenues	3,075,905	2,868,982

Departmental revenues comprise cost recovery arrangements from the States for security registry services incurred by the AOFM for managing debt on allocation to the States, recovery of expenses from salary packaging arrangements and revenue from staff secondments, including from the Australian Agency for International Development (AusAID) to reimburse costs associated with overseas deployments and other support for debt management in the region.

Administered revenues include interest revenue on swap transactions and financial investments, interest on advances made to the States and the Northern Territory under Commonwealth-State financing arrangements.

2.4 MOVEMENT OF ADMINISTERED FUNDS

Table 2.4: Movement of administered funds between years

The AOFM does not have any movement of administered funds.

2.5 SPECIAL APPROPRIATIONS

Table 2.5: Estimates of expenses from special appropriations

	Estimated expenses 2006-07 \$'000	Budget estimate 2007-08 \$'000
Estimated special appropriation expenses		
Outcome 1 - Programme - Commonwealth Debt Management		
<i>Airports (Transitional) Act 1996</i> , section 78 - Interest	-	-
<i>Australian National Railways Commission Sale Act 1997</i> , section 67AW - Interest	-	-
<i>Commonwealth Inscribed Stock Act 1911</i> , section 6 - Interest	3,592,804	3,483,360
<i>Financial Agreement Act 1994</i> , section 5 - Assistance to States for debt redemption	-	-
<i>Loans Redemption and Conversion Act 1921</i> , section 5 - Interest	-	-
<i>Loans Securities Act 1919</i> , section 4 - Interest	1,000	1,000
<i>Loans Securities Act 1919</i> , section 5B(2) - Interest on swaps	1,804,289	1,679,195
<i>Moomba-Sydney Pipeline System Sale Act 1994</i> , section 19(3) - Interest	-	-
<i>Qantas Sale Act 1992</i> , section 18 - Interest	-	-
<i>Snowy Hydro Corporatisation Act 1997</i> , section 22 - Interest	2,000	216
<i>Treasury Bills Act 1914</i> , section 6 - Interest	-	-
Total estimated special appropriation expenses	5,400,093	5,163,771

The commentary below summarises the key legislative mechanisms that establish the Australian Government's borrowing capacity.

The *Commonwealth Inscribed Stock Act 1911* and associated regulations provide 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 Australian Government and the States and the Northern Territory. The Act prescribes the contributions to be made by the Australian Government, the States and the Northern Territory to meet the volume of maturing State and Northern Territory debt. The Act also establishes compensation payments by the Australian Government to the States and the Northern Territory as a result of the new arrangements.

The *Loans Securities Act 1919* provides the Australian Government with additional borrowing in overseas borrowings, swaps and other financial arrangements.

The *Loans Redemption and Conversion Act 1921* gives the Treasurer the power to borrow money necessary for the purpose of paying off, repurchasing or redeeming loans.

Section 39(2) of the *Financial Management and Accountability Act 1997* gives the Treasurer the power to invest public money in authorised investments for the purposes of managing the public debt of the Australian Government. Section 39(9) appropriates funds for this purpose.

2.6 MOVEMENTS IN SPECIAL ACCOUNTS

Special accounts provide a means to set aside and record amounts used for specified purposes. The following table shows the expected additions (credits) and reductions (debits) for each account used by the AOFM.

Table 2.6: Estimates of special account cash flows and balances

	Opening Balance	Credits	Debits	Adjustments	Closing Balance
	2007-08	2007-08	2007-08	2007-08	2007-08
	<i>2006-07</i>	<i>2006-07</i>	<i>2006-07</i>	<i>2006-07</i>	<i>2006-07</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
Debt Retirement Reserve Trust					
Account - <i>Financial Management and Accountability Act 1997</i> (section 21) ¹	-	-	-	-	-
	410	-	-	-	410
Total special accounts					
2007-08 Budget estimate	-	-	-	-	-
<i>Total special accounts</i>					
<i>2006-07 estimated actual</i>	410	-	-	-	410

¹ This special account is administered in nature and is governed by the *Financial Agreement Act 1994*.

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), 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 Australian Government in connection with the repurchase and repayment of the debt of that State or the Northern Territory.

AOFM Budget Statement: Resources

The Act prescribes the contributions to be made by the Australian Government and by the States and the Northern Territory to the DRRTA.

Approximately \$10 million of perpetual debt with no fixed maturity date remains outstanding under arrangements governed by the *Financial Agreement Act 1994*. All other debt has been redeemed. Redemption of the perpetual debt is at the discretion of the relevant States, the timing of which was not fixed at the time of preparation of the Budget. Accordingly, there are no projected cash flows through this special account.

Section 3: Outcomes

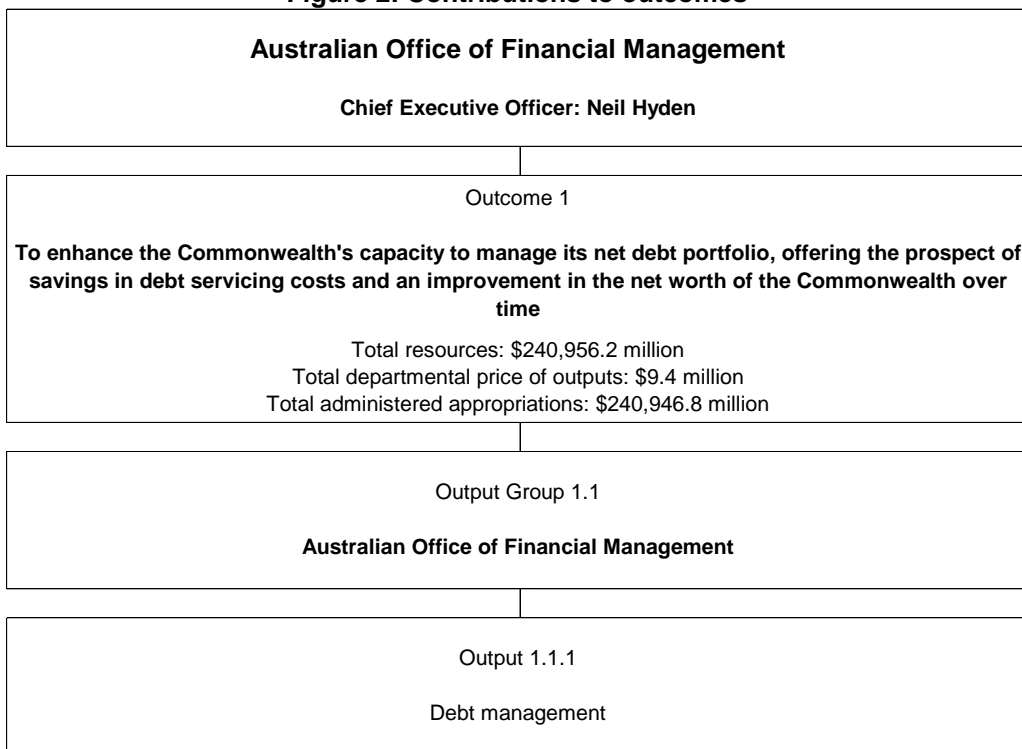
General government sector agencies are required to plan, budget and report under an outcomes structure. Agencies produce outputs (departmental items) and also administer items on behalf of the Government (administered items).

This section explains how the resources identified in Section 2 will be used to deliver outputs and administered items for the Australian Office of Financial Management.

3.1 SUMMARY OF OUTCOMES AND CONTRIBUTION TO OUTCOMES

The AOFM delivers a single output – debt management – with a single outcome. The relationship between the activities of the AOFM and its outcome/output structure is summarised in Figure 2.

Figure 2: Contributions to outcomes



The AOFM has not made any changes to its outcome or output structure since the *Portfolio Budget Statements 2006-07*.

3.2 OUTCOME RESOURCES AND PERFORMANCE INFORMATION

3.2.1 Outcome 1 resourcing

Table 3.1: Total resources for Outcome 1

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000
Administered appropriations		
Special Appropriations ¹	244,372,727	240,946,771
Annual Appropriations	10	10
Total administered appropriations	244,372,737	240,946,781
Departmental appropriations		
Output Group 1.1 - Australian Office of Financial Management		
Output 1.1.1 - Debt management	8,473	8,528
Total departmental appropriations	8,473	8,528
Departmental revenue from other sources		
Other revenues	1,035	867
Total departmental revenue from other sources	1,035	867
Total departmental resources	9,508	9,395
Total estimated resourcing for Outcome 1	244,382,245	240,956,176
	2006-07	2007-08
Average staffing level (number)	35	35

¹ The AOFM draws administered appropriations to make term deposit investments with the Reserve Bank of Australia. These deposits are used to manage the daily variations in the Commonwealth's cash balances in the Official Public Account (OPA). The cash flows into and out of the OPA are highly variable from day to day and so in consequence are the number, size and timing of term deposits. These deposits are financing transactions and represent the most significant component of the special appropriations (\$232.9 billion in each year).

3.2.2 Measures affecting Outcome 1

The AOFM does not have any 2007-08 Budget measures.

3.2.3 Contributions to achievement of Outcome 1

The AOFM produces its output – debt management – through the issuance of Treasury Bonds and the execution of interest rate swaps. It also undertakes risk management activities, compliance activities, financial reporting, debt administration and the monitoring of conditions in Treasury bond and futures markets. Debt management activities comply with applicable legislative requirements and accounting standards.

3.2.4 Performance information for Outcome 1

Performance information for administered items, individual outputs and output groups relating to the Australian Office of Financial Management are summarised in Table 3.2.

Table 3.2: Performance information for Outcome 1

Effectiveness - Overall achievement of the Outcome	
Debt issued by the Australian Government and debt assumed from Australian Government agencies.	Achievement of the Australian Government's financing task in a cost-effective manner, subject to acceptable risk. An efficient Treasury Bond market that supports an efficient Treasury Bond futures market.
Performance indicators for individual outputs	
Output group 1.1: Australian Office of Financial Management	
Output 1.1.1 - Debt Management	Cost of Australian Government debt portfolio. Timely production of reports on debt management activities. Efficient execution of the Australian Government'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 Australian Government's cash balances. Indicators include having sufficient cash to meet the Government's financial obligations and adherence to limits on cash balances over the course of the year. Price: \$9.4 million

3.2.5 Evaluations for Outcome 1

Feedback is sought on a regular basis from financial markets and key clients on the effectiveness of debt issuance and the efficiency of the Commonwealth Government Securities bond and futures markets. The appropriateness of the benchmark portfolio is also reviewed regularly. Results are presented in the AOFM's Annual Report.

Section 4: Other reporting requirements

4.1 PURCHASER-PROVIDER ARRANGEMENTS

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

4.2 COST RECOVERY ARRANGEMENTS

The AOFM does not carry out significant ongoing cost recovery arrangements.

4.3 AUSTRALIAN GOVERNMENT INDIGENOUS EXPENDITURE

Table 4.1: Australian Government Indigenous Expenditure

The AOFM does not have any specific indigenous expenditure.

Section 5: 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 2006-07 (estimated actual results), 2007-08 (Budget) and three forward years. The financial statements should be read in conjunction with the accompanying notes.

5.1 ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

Departmental

Budgeted Income Statement

Since its establishment as a separate agency in July 1999, the AOFM has been developing its resource base and functionality. Continuous improvements are being made in policy, systems and methodology in the areas of financial market operations and risk management. The budget and forward years reflect periods when revenue and operating expenses are expected to be relatively stable.

Budgeted Balance Sheet

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 current 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, in the forward estimates period, particularly in relation to systems, both for development and replacement, is expected. Sufficient funding has been provided for this future capital investment from accumulated unspent outputs appropriations (depreciation funding) 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 issues Treasury Bonds with tenors chosen to support the requirements of the Treasury Bond futures market. The Administered Budget and forward estimates reflect this decision.

The AOFM executes interest rate swap transactions to manage the cost and risk of its net debt portfolio. The Administered Budget and forward estimates incorporate the interest rate swap programme.

AOFM Budget Statement: Budgeted financial statements

The Australian Government holds surplus funds as term deposits with the Reserve Bank of Australia. Estimates of these asset holdings have been included in the Administered Budget and forward estimates. The Future Fund is managed by the Future Fund Management Agency in the Finance and Administration Portfolio, and its asset holdings are not included in the AOFM's administered budget and forward estimates.

5.2 BUDGETED FINANCIAL STATEMENTS TABLES

**Table 5.1: Budgeted departmental income statement
(for the period ended 30 June)**

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
INCOME					
Revenue					
Revenues from Government	8,473	8,528	8,622	8,720	8,809
Goods and services	1,035	867	867	867	867
Total revenue	9,508	9,395	9,489	9,587	9,676
Total income	9,508	9,395	9,489	9,587	9,676
EXPENSES					
Employees	4,550	4,797	5,062	5,338	5,675
Suppliers	3,870	4,148	3,977	3,799	3,551
Depreciation and amortisation	838	450	450	450	450
Total expenses	9,258	9,395	9,489	9,587	9,676
Surplus / (deficit)	250	-	-	-	-
Surplus / (deficit) attributable to the Australian Government	250	-	-	-	-

Table 5.2: Budgeted departmental balance sheet (as at 30 June)

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
ASSETS					
Financial assets					
Cash	829	1,014	1,657	1,865	2,596
Receivables ¹	9,462	9,462	9,462	9,462	9,462
Total financial assets	10,291	10,476	11,119	11,327	12,058
Non-financial assets					
Infrastructure, plant and equipment	710	560	310	560	310
Intangibles	715	915	715	515	315
Other non-financial assets	19	19	19	19	19
Total non-financial assets	1,444	1,494	1,044	1,094	644
Total assets	11,735	11,970	12,163	12,421	12,702
LIABILITIES					
Payables					
Suppliers	97	97	97	97	97
Total payables	97	97	97	97	97
Provisions					
Employees	1,244	1,479	1,672	1,930	2,211
Other provisions	125	125	125	125	125
Total provisions	1,369	1,604	1,797	2,055	2,336
Total liabilities	1,466	1,701	1,894	2,152	2,433
Net assets	10,269	10,269	10,269	10,269	10,269
EQUITY					
Contributed equity	3,423	3,423	3,423	3,423	3,423
Retained surpluses	6,846	6,846	6,846	6,846	6,846
Total equity	10,269	10,269	10,269	10,269	10,269
Current assets	1,053	1,238	1,881	2,089	2,820
Non-current assets	10,682	10,732	10,282	10,332	9,882
Current liabilities	1,059	1,241	1,377	1,576	1,792
Non-current liabilities	407	460	517	576	641

1 Receivables balance includes \$9.3 million of undrawn appropriations held in the Official Public Account.

**Table 5.3: Budgeted departmental statement of cash flows
(for the period ended 30 June)**

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
OPERATING ACTIVITIES					
Cash received					
Appropriations	8,473	8,528	8,622	8,720	8,809
Other cash received	1,035	867	867	867	867
Total cash received	9,508	9,395	9,489	9,587	9,676
Cash used					
Employees	4,335	4,562	4,870	5,079	5,396
Suppliers	3,869	4,148	3,976	3,800	3,549
Total cash used	8,204	8,710	8,846	8,879	8,945
Net cash from or (used by) operating activities	1,304	685	643	708	731
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	600	500	-	500	-
Total cash used	600	500	-	500	-
Net cash from or (used by) investing activities	(600)	(500)	-	(500)	-
Net increase or (decrease) in cash held	704	185	643	208	731
Cash at the beginning of the reporting period	125	829	1,014	1,657	1,865
Cash at the end of the reporting period	829	1,014	1,657	1,865	2,596

Table 5.4: Departmental statement of changes in equity — summary of movement (Budget year 2007-08)

	Retained earnings \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Contributed equity/ capital \$'000	Total equity \$'000
Estimated opening balance as at 1 July 2007					
Balance carried forward from previous period	6,846	-	-	3,423	10,269
Estimated opening balance	6,846	-	-	3,423	10,269
Income and expense					
Surplus (deficit) for the period	-	-	-	-	-
Total income and expense recognised directly in equity	-	-	-	-	-
Estimated closing balance as at 30 June 2008	6,846	-	-	3,423	10,269

Table 5.5: Departmental capital budget statement

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
CAPITAL APPROPRIATIONS					
Total equity injections	-	-	-	-	-
Total loans	-	-	-	-	-
Total capital appropriations	-	-	-	-	-
Represented by:					
Purchase of non-financial assets	-	-	-	-	-
Other	-	-	-	-	-
Total represented by	-	-	-	-	-
PURCHASE OF NON-FINANCIAL ASSETS					
Funded by capital appropriation	-	-	-	-	-
Funded internally by departmental resources	600	500	-	500	-
Total	600	500	-	500	-

Table 5.6: Departmental property, plant, equipment and intangibles — summary of movement (Budget year 2007-08)

	Land	Investment	Buildings	Specialist	Other	Heritage	Computer	Other	Total
	\$'000	property	\$'000	military	infrastructure	and cultural	software	intangibles	\$'000
	\$'000	\$'000	\$'000	equipment	plant and	assets	\$'000	\$'000	\$'000
					equipment				
As at 1 July 2007									
Gross book value	-	-	-	-	1,516	-	3,315	-	4,831
Accumulated depreciation	-	-	-	-	(806)	-	(2,600)	-	(3,406)
Estimated opening net book value	-	-	-	-	710	-	715	-	1,425
Additions:									
by purchase	-	-	-	-	100	-	400	-	500
Depreciation/amortisation expense	-	-	-	-	(250)	-	(200)	-	(450)
As at 30 June 2008									
Gross book value	-	-	-	-	1,616	-	3,715	-	5,331
Accumulated depreciation	-	-	-	-	(1,056)	-	(2,800)	-	(3,856)
Estimated closing net book value	-	-	-	-	560	-	915	-	1,475

Table 5.7: Schedule of budgeted income and expenses administered on behalf of government (for the period ended 30 June)

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
INCOME AND EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT					
Revenue before re-measurements					
Non-taxation					
Interest	3,075,905	2,868,982	3,074,144	3,606,317	3,946,232
Total non-taxation	3,075,905	2,868,982	3,074,144	3,606,317	3,946,232
Total revenues before re-measurements	3,075,905	2,868,982	3,074,144	3,606,317	3,946,232
Expenses before re-measurements					
Interest and financing costs	5,400,103	5,163,781	4,685,803	4,414,764	4,038,119
Total expenses before re-measurements	5,400,103	5,163,781	4,685,803	4,414,764	4,038,119
Operating result before re-measurements	(2,324,198)	(2,294,799)	(1,611,659)	(808,447)	(91,887)
Re-measurements					
Net market valuation gains	563,668	212,000	124,000	92,000	105,000
Total re-measurements	563,668	212,000	124,000	92,000	105,000
Net Income	(1,760,530)	(2,082,799)	(1,487,659)	(716,447)	13,113

Table 5.8: Schedule of budgeted assets and liabilities administered on behalf of government (as at 30 June)

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Cash	1,698	1,698	1,698	1,698	1,698
Receivables	2,623,980	2,583,063	2,546,702	2,502,962	2,470,002
Investments (section 39 FMA Act)	16,492,000	26,777,000	40,386,000	52,264,000	54,854,000
Accrued revenues	107	107	107	107	107
Total financial assets	19,117,785	29,361,868	42,934,507	54,768,767	57,325,807
Total assets administered on behalf of Government	19,117,785	29,361,868	42,934,507	54,768,767	57,325,807
LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT					
Interest bearing liabilities					
Commonwealth Government					
Securities	57,305,893	59,296,893	59,378,893	58,744,893	50,733,893
Total interest bearing liabilities	57,305,893	59,296,893	59,378,893	58,744,893	50,733,893
Payables					
Other payables	107	107	107	107	107
Total payables	107	107	107	107	107
Total liabilities administered on behalf of Government	57,306,000	59,297,000	59,379,000	58,745,000	50,734,000

**Table 5.9: Schedule of budgeted administered cash flows
(for the period ended 30 June)**

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
OPERATING ACTIVITIES					
Cash received					
Interest	2,998,522	2,905,349	3,100,188	3,602,451	3,964,771
Total cash received	2,998,522	2,905,349	3,100,188	3,602,451	3,964,771
Cash used					
Interest paid	5,185,412	5,194,016	4,770,264	4,292,389	4,754,574
Total cash used	5,185,412	5,194,016	4,770,264	4,292,389	4,754,574
Net cash from or (used by) operating activities	(2,186,890)	(2,288,667)	(1,670,076)	(689,938)	(789,803)
INVESTING ACTIVITIES					
Cash received					
Repayments of advances	86,533	88,651	91,260	93,515	95,725
Total cash received	86,533	88,651	91,260	93,515	95,725
Net cash from or (used by) investing activities	86,533	88,651	91,260	93,515	95,725
FINANCING ACTIVITIES					
Cash received					
Proceeds from borrowing	5,156,690	5,049,134	5,271,518	4,968,716	4,973,151
Term deposit maturities	234,561,000	222,598,000	219,288,000	221,013,000	230,277,000
Total cash received	239,717,690	227,647,134	224,559,518	225,981,716	235,250,151
Cash used					
Repayment of borrowings	6,111,634	2,922,000	5,098,000	5,709,000	12,250,000
Term deposit investments	232,861,000	232,861,000	232,861,000	232,861,000	232,861,000
Total cash used	238,972,634	235,783,000	237,959,000	238,570,000	245,111,000
Net cash from or (used by) financing activities	745,056	(8,135,866)	(13,399,482)	(12,588,284)	(9,860,849)
Net increase or (decrease) in cash held	(1,355,301)	(10,335,882)	(14,978,298)	(13,184,707)	(10,554,927)
Cash at beginning of reporting period	1,698	1,698	1,698	1,698	1,698
Cash from Official Public Account for:					
- appropriations	244,218,658	241,048,306	242,794,377	242,944,364	249,923,332
Cash to Official Public Account for:					
- appropriations	(242,863,357)	(230,712,424)	(227,816,079)	(229,759,657)	(239,368,405)
Cash at end of reporting period	1,698	1,698	1,698	1,698	1,698

Table 5.10: Schedule of administered capital budget

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
CAPITAL APPROPRIATIONS					
Administered capital	-	-	-	-	-
Special appropriations	238,972,634	235,783,000	237,959,000	238,570,000	245,111,000
Total capital appropriations	238,972,634	235,783,000	237,959,000	238,570,000	245,111,000
Represented by:					
Purchase of non-financial assets	-	-	-	-	-
Other	238,972,634	235,783,000	237,959,000	238,570,000	245,111,000
Total represented by	238,972,634	235,783,000	237,959,000	238,570,000	245,111,000

Table 5.11: Schedule of administered property, plant, equipment and intangibles — summary of movement (Budget year 2007-08)

The AOFM does not have any administered property, plant, equipment and intangibles.

5.3 NOTES TO THE FINANCIAL STATEMENTS

Basis of accounting

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. Infrastructure, plant and equipment assets are revalued every three years using a fair value methodology. Employee entitlements are measured at the present value of estimated future cash flows based on periodic actuarial assessment.

Since 1 July 2005, the administered financial statements have been prepared on a fair value basis in accordance with Australian equivalents to international financial reporting standards. As a result of subsequent amendments to AASB 139 *Financial Instruments: Recognition and Measurement*, the AOFM has revised its accounting policies. The impact of this revision is that the AOFM will continue to measure all significant financial assets and financial liabilities at fair value through profit or loss, with the exception of housing loans to the States and Northern Territory. From 2006-07, these loans are now measured on an amortised cost basis, after initial recognition at fair value, under the requirements of the revised AASB 139.

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 Communications, Information Technology and the Arts (DCITA), the AOFM currently manages the investments made by the Communications Fund. These investments and their earnings are reported by DCITA and not the AOFM.

Budgeted departmental and administered financial statements

The budgeted financial statements contain estimates prepared in accordance with the requirements of the Australian 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 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.
- 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 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)

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

Appropriations in the accrual budgeting framework

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

- agency price of outputs appropriations: representing the Australian Government's purchase of outputs from the AOFM; and
- administered expense appropriations: for the repayment of interest on lapsed coupons not supported by special appropriation.

Special appropriations fund the majority of administered expenses and payments made by the AOFM, including debt redemption, interest payments and financial investment activity.

Budgeted departmental income statement

Appropriations

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

For financial years from 2005-06 to 2007-08 (inclusive), the Government has imposed an additional 0.25 per cent efficiency dividend on agencies, bringing the efficiency dividend to 1.25 per cent for these financial years.

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 asset replacements; 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 schedule of budgeted income and expenses

Non-taxation revenue — interest

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
Interest					
Interest on housing agreements	174,109	170,299	166,358	162,258	158,018
Interest from other sources	2,901,796	2,698,683	2,907,786	3,444,059	3,788,214
Total interest	3,075,905	2,868,982	3,074,144	3,606,317	3,946,232

Interest from other sources includes interest from swaps and investments.

Expenses — interest and financing costs

	Estimated actual 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
Interest					
Interest on Commonwealth Government Securities	3,593,814	3,484,370	3,370,163	3,353,319	3,219,101
Interest on swaps	1,804,289	1,679,195	1,315,424	1,061,445	819,018
Other	2,000	216	216	-	-
Total interest and financing costs	5,400,103	5,163,781	4,685,803	4,414,764	4,038,119

Net market valuation gains

Net market valuation gains represents the estimated unrealised fair value gains on the net debt portfolio. This valuation gain 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 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
Receivables					
Loans to State and Northern Territory Governments ¹	2,904,339	2,837,319	2,767,579	2,695,445	2,620,941
Swaps ²	(280,359)	(254,256)	(220,877)	(192,483)	(150,939)
Total receivables	2,623,980	2,583,063	2,546,702	2,502,962	2,470,002

1 At amortised cost from 1 July 2006.

2 At fair value.

AOFM Budget Statement: Budgeted financial statements

Financial assets — investments

The AOFM, on behalf of the Australian Government, holds surplus funds as term deposits with the Reserve Bank of Australia. 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 2006-07 \$'000	Budget estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000	Forward estimate 2010-11 \$'000
Interest bearing liabilities					
Commonwealth Government Securities					
Treasury Bonds	48,037,000	49,947,000	49,912,000	49,161,000	43,338,000
Treasury Indexed Bonds	9,229,000	9,327,000	9,448,000	9,565,000	7,377,000
Other securities	39,893	22,893	18,893	18,893	18,893
Total interest bearing liabilities	57,305,893	59,296,893	59,378,893	58,744,893	50,733,893