

Client Services

Loans

The Corporation lends funds to the Northern Territory Government, government business divisions, the government owned corporation, local authorities and other government organisations. Loans are issued in accordance with commercially based guidelines and practices. All loans are approved by the Treasurer of the Northern Territory in accordance with section 13(2)(b) of the *Northern Territory Treasury Corporation Act* and section 31(1) of the *Financial Management Act*.

As at 30 June 2008, the Corporation had a total outstanding loan portfolio of \$2347 million, an increase of \$25 million from the previous financial year. Table 7 shows the comparative analysis of total outstanding loans provided by the Corporation over the past five years.

General Government Agencies

Loans are provided to general government agencies through the Central Holding Authority (CHA). The CHA is the 'parent body' that represents the Territory Government's ownership interest in Government-controlled entities. The funds are used to finance general government activities and the Northern Territory's major infrastructure projects.

As at 30 June 2008, the Corporation had a total of \$1598 million in outstanding loans to the CHA, almost unchanged from the previous financial year.

Government Business Divisions

Loans to government business divisions represent borrowings by Territory Government owned entities that operate on a commercial basis. The funds are used to finance capital and operating expenditure requirements.

As at 30 June 2008, loans to this sector totalled approximately \$321 million, a decrease of \$54 million from the previous financial year. This is the net movement resulting from new loans of \$1.8 million to Darwin Port Corporation, a repayment of \$51.5 million from Territory Housing and the regular instalments of principal repayments attributable on credit foncier style loans from a number of clients.

Government Owned Corporations

Loans to government owned corporations (GOC) represent borrowings by Territory Government owned entities that operate on a commercial basis but whose operations are not guaranteed by the Crown and do not make the Territory liable for its debts, liabilities or obligations. The funds are used to finance capital and operating expenditure requirements.

The Power and Water Corporation is the only entity established as a GOC as at 30 June 2008. Loans to this sector totalled approximately \$427 million, an increase of \$81 million from the previous financial year. This is the net movement resulting from \$87 million lent to Power and Water Corporation throughout the course of the financial year and the regular instalments of principal repayments established under the credit foncier style loans advanced to the GOC.

Table 7: Outstanding Loans as at 30 June

	2008	2007	2006	2005	2004
	\$M	\$M	\$M	\$M	\$M
General Government Agencies	1 598	1 599	1 600	1 601	1 601
Government Business Divisions	321	375	392	380	368
Government Owned Corporation	427	346	326	289	290
Local Authorities	1	1	1	1	1
Other Government Organisations	-	1	1	1	6
Total	2 347	2 322	2 320	2 272	2 266

Local Authorities

Loans to local authorities represent borrowings by local governing bodies situated throughout the Northern Territory. The funds are used to finance specific council infrastructure projects, working capital requirements or to purchase or replace existing plant and equipment. Loans to local authorities are first assessed by the Department of Local Government and Housing and must carry the support and recommendation of the Minister for Local Government prior to being submitted for approval to the Treasurer of the Northern Territory.

As at 30 June 2008, loans to local authorities totalled about \$1 million, consistent with outstanding loan balances from the previous financial year.

Other Government Organisations

Loans to other government organisations represent borrowings by non financial public sector organisations with which the Northern Territory Government has an association.

Charles Darwin University (CDU) is the only entity established under this classification. As at 30 June 2008, CDU's outstanding loans totalled less than \$1 million, consistent with scheduled instalments of principal repayments established under the credit foncier style of the loans advanced to CDU.

A full listing of the Corporation's loans is provided in Appendix B on page 33.

CHA Investments

- » The Northern Territory Government's investment portfolio is formed by pooling the surplus cash balances held in the name of the Central Holding Authority (CHA) and investing in a variety of secure short, medium and long term debt securities issued in the Australian financial markets.
- » The broad objectives of the Corporation in managing CHA's investment portfolio are:

- to ensure sufficient liquidity is maintained in the Government's cash balances to meet all financial obligations as they fall due; and
- to obtain a return on the Government's cash balances in line with the benchmark, while adhering to the investment guidelines approved by the Treasurer.

Details of the investment guidelines approved by the Treasurer of the Northern Territory are outlined in Appendix C on page 34.

Central Holding Authority Investments

Investment Portfolio

The investment portfolio is composed of a range of secure investments of which a significant proportion are in short term instruments such as: 11AM cash; bank accepted bills; promissory notes; and negotiable certificates of deposit. A core amount of the investment portfolio is available for investment in longer term instruments such as floating rate notes and fixed interest securities.

The Corporation's aims to achieve the maximum return on investments within defined risk exposures, while ensuring the Government has sufficient cash balances to meet cash flow requirements.

As at 30 June 2008, the total investment portfolio was about \$658 million, compared to \$469 million at 30 June 2007 (see Table 8).

Total investment income for 2007-08 was \$40.2 million compared to \$32.5 million in 2006-07. All interest revenue on the investment portfolio is paid directly into the Northern Territory Government's Central Holding Authority. The weighted average return on the investment portfolio in 2007-08 was 7.08 per cent compared to 6.34 per cent in 2006-07 (see Table 9).

Table 8: Investment Portfolio by Asset Allocation as at 30 June

	2008		2007		2006		2005		2004	
	%	\$M	%	\$M	%	\$M	%	\$M	%	\$M
Cash and Short Term-Securities	67.3	442.9	85.1	398.9	78.6	331.1	85.9	219.6	81.3	274.7
Floating Rate Notes	4.6	30.0	3.2	15.0	2.4	10.0	4.3	11.1	3.9	13.3
Fixed Interest Securities	28.1	185.0	11.7	55.0	19.0	80.0	9.8	25.0	14.8	50.0
Total		657.9		468.9		421.1		255.7		338.0

Table 9: Investment Performance Against Objective/Comparison To Benchmark

	2007-08	2006-07	2005-06	2004-05	2003-04
	%	%	%	%	%
Weighted Average Return (Mark to Market)	7.08	6.34	5.57	5.64	5.15
UBS Warburg Indices	7.10	6.31	5.59	5.66	5.15

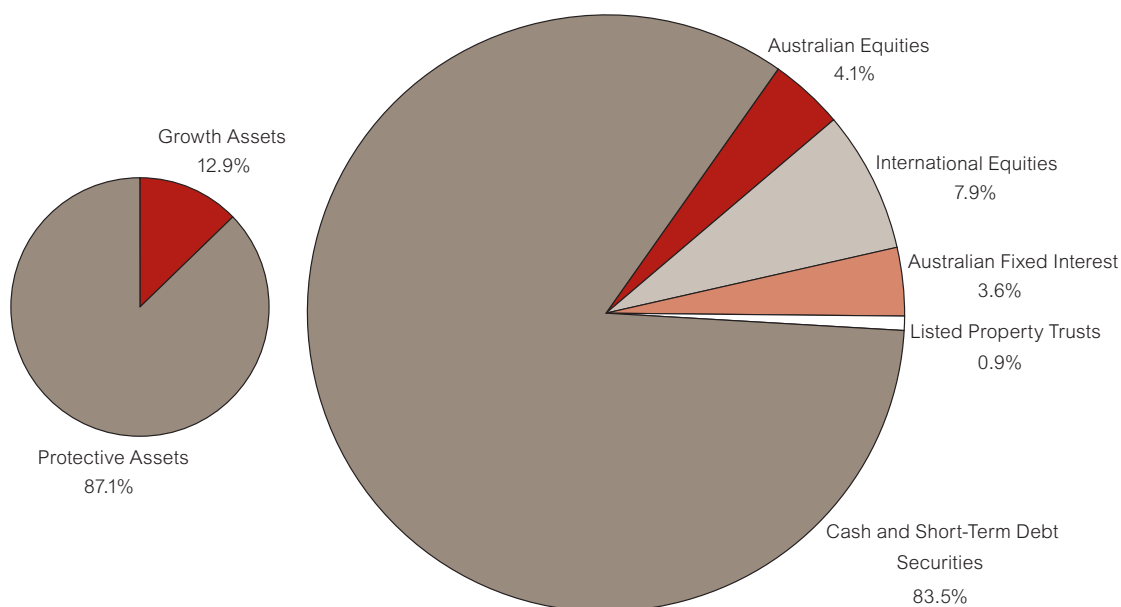
Medium-Term Investment Fund

The Medium-Term Investment Fund (MTIF) is a segregated pool of investments held within the Central Holding Authority. It primarily represents surplus funds that have accumulated and not yet been expended by Northern Territory Government agencies. The MTIF fund is a tailored solution provided by MLC Investments Limited. The MTIF has a relatively conservative investment style, with a small (about 13 per cent) allocation to growth assets in order to achieve its stated objective of producing a superior return over in the medium term (2-3 years).

The Corporation is responsible for monitoring and reporting on the performance of the fund and managing the relationship with the investment manager. The investment performance of the fund is benchmarked against the UBS Warburg Australian Bank Bill Index.

The MTIF commenced on 27 November 2007 with an initial investment of \$50 million. As at 30 June 2008, the market valuation of the MTIF totalled \$50.3 million. A snapshot of the MTIF pool of investments is shown in the charts below.

Figure 4: Asset Allocation - 30 June 2008



Conditions of Service Reserve

The Conditions of Service Reserve (COSR) is a segregated pool of investments held within the Central Holding Authority (CHA). The funds are held at the discretion of the Treasurer and are intended for purposes such as meeting the Territory Government's unfunded superannuation liabilities. The funds are managed by three investment managers: AMP Capital Investors Limited; Colonial First State Investments Limited; and MLC Implemented Consulting. The fund has a long-term investment strategy orientated towards growth assets such as domestic and international equities.

The Corporation is responsible for monitoring and reporting on the performance of the fund and managing the relationship with the investment managers. The investment performance of the fund is benchmarked against performance results for the 'growth' product category as published in the monthly InTech Investor

Choice Performance Survey. This is consistent with the asset allocation mix applied to COSR.

As at 30 June 2008, the market valuations of the COSR fund totalled \$403.8 million, a net decrease of \$18.1 million from the \$421.9 million recorded on 30 June last year. In 2007-08, the Treasurer approved the contribution of an additional \$20 million towards the Territory's superannuation liabilities. As a result, CHA instructed the Corporation to invest and allocate the funds in line with the existing investment strategy.

A snapshot of the COSR pool of investments and fund performance is shown in Table 10.

Table 10: Conditions of Service Reserve – Investment Allocation and Performance Summary

Fund Manager	Fund Allocation	Market Valuation		Performance Returns %		
	%	30 June \$M		1 Year	3 Years	5 Years
	30 June 08	2008	2007			
AMP Capital Investors Limited	29.0	117.0	123.4	-10.65	9.17	12.47
Colonial First State Investments Ltd	42.6	172.2	180.1	-7.54	9.20	12.02
MLC Implemented Consulting	28.4	114.6	118.4	-8.83	7.19	10.12
Total	100.0	403.8	421.9	-8.81	8.69	11.66
Benchmark – InTech Growth Portfolio				-9.79	6.01	8.98
Performance of COSR relative to benchmark				+0.98	+2.68	+2.68

Investment Environment

July - September 2007

- Australia's June quarter Consumer Price Index (CPI) rises 1.2%. The Reserve Bank of Australia (RBA) notes the pickup in the pace of growth in demand and activity in the domestic economy and considers the need for higher interest rates to contain inflationary pressures.
- The Australian dollar (AUD) climbs to an 18 year high of US\$0.8871 following stronger than expected growth in inflation. Subsequently this is overshadowed by the emergence of the sub-prime mortgage sector crisis in the United States (US).
- In August, the RBA raises the cash rate by 0.25% from 6.25% to 6.50%, citing a more restrictive monetary policy setting was required in order to contain inflation in the medium term. The RBA also revises up its inflation forecasts to the top of its 2-3% target band.
- Financial markets become increasingly concerned about the fallout from the deterioration in the US sub-prime housing sector. This results in market turmoil involving falls in the equity market, broader credit concerns and severe illiquidity in money markets.

October - December 2007

- The September quarter CPI shows an underlying price increases of 0.9%, lifting the annual underlying inflation rate to the top of the RBA 2-3% target range.
- Domestic economic data released throughout the period shows further evidence of a strong domestic economy with robust retail sales, high building approvals and credit growth. Australia's unemployment rate falls to a 33-year low of 4.2%, highlighting the RBA's concerns of a tight labour market and the consequent risk of wage inflation.
- In November, the RBA raises the cash rate by 0.25% to 6.75%, the highest official interest rate since mid 1996, citing continued strong growth in the Australian economy, which is forecast to reach 5% in 2007.
- The Australian share market remains buoyant despite the volatility in financial markets stemming from the global credit crisis. The ASX200 Index reaches a new record high of 6828 points.

January - March 2008

- The December quarter inflation data confirms market fears that a further interest rate rise will be delivered by the RBA. The Australian Bureau of Statistics figure for the December quarter shows CPI rising 0.9%, lifting the average of the annual rate to 3.6%.
- In February, the RBA raises the cash rate by 0.25% from 6.75% to 7.00%.
- Financial markets price in another 0.25% increase in the cash rate following the release of strong economic activity data, including the unemployment rate at a new 33-year low of 4.1%.
- In March, the RBA raises the cash rate by 0.25% to 7.25% stating that the increase was necessary in order to contain and reduce inflation over the medium term.
- Sentiment in global financial markets remains fragile following the Federal Reserve's orchestrated rescue of investment bank, Bear Stearns. Domestic financial intermediaries experience increasing funding costs, which are passed on to its customers. Institutional lenders are consequently reviewing their lending policies and tightening their credit standards.

April - June 2008

- Australia's March quarter CPI reveals headline inflation rising 1.3% (4.2% year on year). Although well above the RBA's target band, financial markets see a slim chance of an interest rate rise in May as economic data shows consumer and business confidence falling and credit growth slowing.
- The Commonwealth Government announces the issuance of up to \$25 billion of Commonwealth Government Securities as part of its commitment to the effective operation of Australia's financial markets. Changes to the Interest Withholding Tax (IWT) arrangements for state government bond issuances. Bonds issued by state governments will be eligible for exemption from IWT.
- The AUD ends the financial year with mixed results against the major trading currencies. The local currency appreciated 14% against the UK pound (£0.4829) and 13% against the US dollar, reaching a 25-year high at US\$0.9626, while closing down 3% against the euro (€0.6096) and Japanese yen (¥101.93).