

Client Services

Loans

The Corporation lends funds to the Northern Territory Government, government business divisions (GBDs), 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 2009, the Corporation had a total outstanding loan portfolio of \$2358 million, an increase of \$11 million from the previous financial year. Table 7 on page 12 shows the comparative analysis of total outstanding loans provided by the Corporation over the past five years.

General Government Agencies

General government agencies are funded through the Central Holding Authority (CHA) via loans provided by Treasury Corporation. 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.

The restructure of the former Territory Housing GBD on 1 July 2008 resulted in the transfer of some of its activities to the Department of Local Government and Housing (DLGH). Consequently, loans of the former Territory Housing relating to these activities have also transferred to DLGH and are shown separately to CHA to reflect the significant level of resources set aside for this purpose.

As at 30 June 2009, loans to the general government sector totalled about \$1582 million, a decrease of \$16 million from the previous financial year. This net movement is a result of a repayment of \$100 million from the CHA and the transfer of \$85 million in former Territory Housing loans to DLGH.

Government Business Divisions

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

The restructure of the former Territory Housing GBD on 1 July 2008 resulted in the establishment of a new GBD, NT Home Ownership, which provides housing loans, and the transfer of some of its activities to DLGH.

As at 30 June 2009, loans to this sector totalled about \$210 million, a decrease of \$111 million from the previous financial year. This is the net movement resulting from new loans of \$3.5 million to Darwin Port Corporation, a repayment of \$20 million from the former Territory Housing, the transfer of \$85 million in loans to the DLGH due to the Territory Housing restructure, 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 (GOCs) represent borrowings by Territory Government owned entities that operate on a commercial basis but whose operations are not guaranteed by the Crown and that 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 2009. Loans to this sector totalled about \$565 million, an increase of \$138 million from the previous financial year. This is the net movement resulting from \$144 million lent to the 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

	2009	2008	2007	2006	2005
	\$M	\$M	\$M	\$M	\$M
General Government Agencies	1 582	1 598	1 599	1 600	1 601
Government Business Divisions	210	321	375	392	380
Government Owned Corporation	565	427	346	326	289
Local Authorities	1	1	1	1	1
Other Government Organisations	-	-	1	1	1
Total	2 358	2 347	2 322	2 320	2 272

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 2009, loans to local authorities totalled less than \$1 million following Katherine Town Council's decision to repay its loan in July 2008. Accordingly, the Corporation now has only one outstanding loan to this sector.

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.

In September 2008, the Corporation received the final scheduled instalment of principal and interest required to repay the loan in full. Accordingly, as at 30 June 2009, the Corporation no longer has any outstanding loans to CDU.

A full listing of the Corporation's loans is provided in Appendix B on page 35.

Figure 4: Client Loans as at 30 June 2009

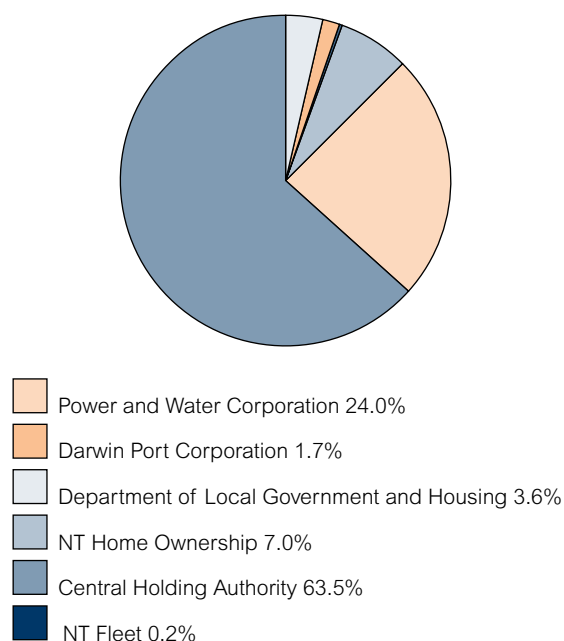
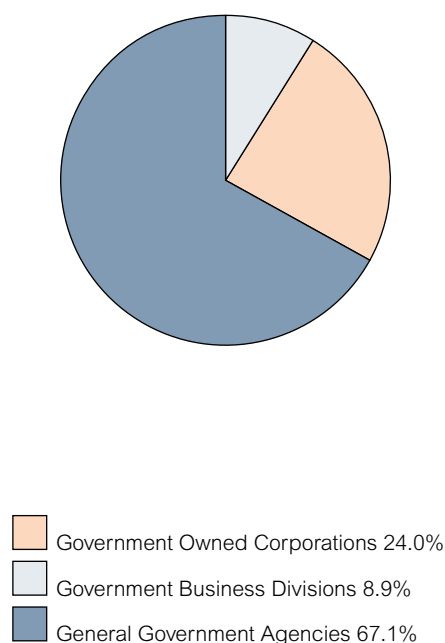


Figure 5: Client Loans by Sector as at 30 June 2009



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 36.

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 increase in cash balances in recent years, due to higher than expected Commonwealth GST revenue and deferral of budget expenditure, allows for more of the cash surplus to be invested into long-term securities without exposing the CHA to any increase in liquidity

risk. The Corporation 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 2009, the total investment portfolio was about \$621 million, compared to \$658 million at 30 June 2008 (see Table 8).

Total investment income for 2008-09 was \$39.3 million compared to \$40.2 million in 2007-08. All interest revenue on the investment portfolio is paid directly to the CHA. The weighted average return on the investment portfolio in 2008-09 was 6.71 per cent compared to 7.08 per cent in 2007-08 (see Table 9).

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

	2009		2008		2007		2006		2005	
	%	\$M	%	\$M	%	\$M	%	\$M	%	\$M
Cash and Short-Term Securities	67.8	421.4	67.3	442.9	85.1	398.9	78.6	331.1	85.9	219.6
Floating Rate Notes	4.0	25.0	4.6	30.0	3.2	15.0	2.4	10.0	4.3	11.1
Fixed Interest Securities	28.2	175.0	28.1	185.0	11.7	55.0	19.0	80.0	9.8	25.0
Total		621.4		657.9		468.9		421.1		255.7

Table 9: Investment Performance Against Objective/Comparison to Benchmark

	2008-09	2007-08	2006-07	2005-06	2004-05
	%	%	%	%	%
Weighted Average Return (Mark to Market)	6.71	7.08	6.34	5.57	5.64
Weighted UBS Performance Indices	6.73	7.10	6.31	5.59	5.66

Medium-Term Investment Fund

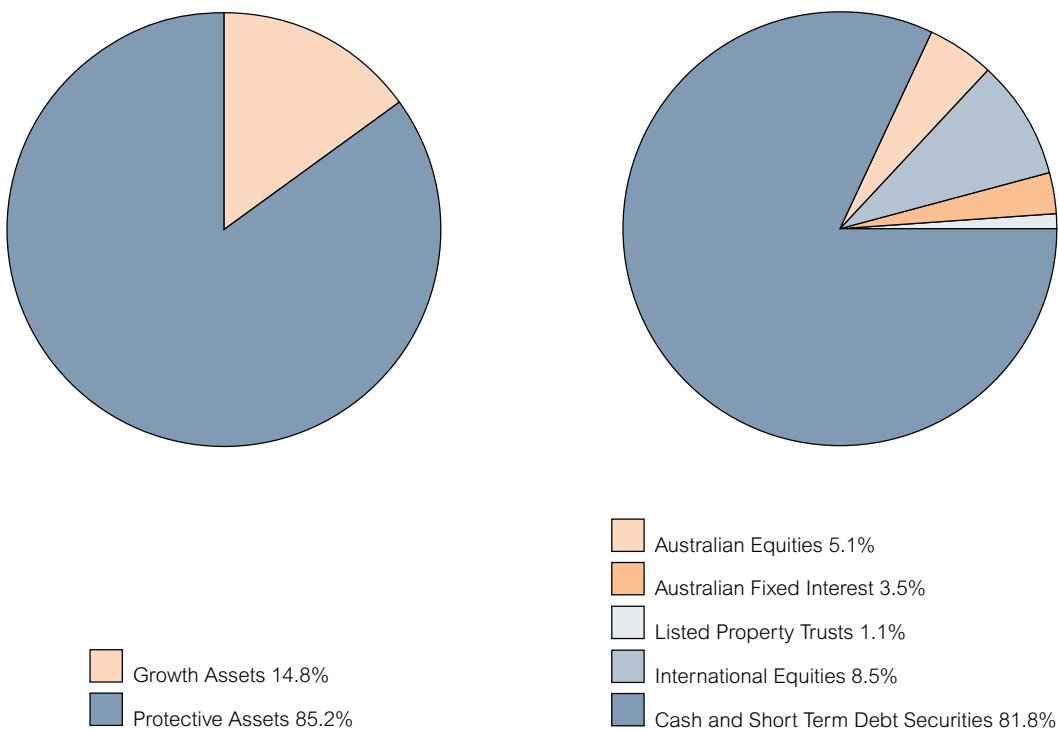
The Medium-Term Investment Fund (MTIF) is a segregated pool of investments held within the CHA. It primarily represents surplus funds that have accumulated and have not yet been expended by Territory Government agencies. The MTIF fund is a tailored solution provided by MLC Investments Limited. The MTIF has a relatively conservative investment style, with a small (about 15 per cent) allocation to growth assets in order to achieve its stated objective of producing a superior return over 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 2009, the market valuation of the MTIF totalled \$50.7 million.

A snapshot of the MTIF pool of investments is shown in Figure 6.

Figure 6: Asset Allocation – 30 June 2009



Conditions of Service Reserve

The Conditions of Service Reserve (COSR) is a segregated pool of investments held within the 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 2009, the market valuations of the COSR fund totalled \$345.2 million, a decrease of \$58.6 million from the \$403.8 million recorded on 30 June last year. There were no additional contributions to the fund during 2008-09.

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	Market Valuation		Performance Returns %			
	Allocation %	30 June \$M		1 Year	3 Years	5 Years	7 Years
	30 June 09	2009	2008				
AMP Capital Investors Limited	28.2	97.5	117.0	-16.67	-4.33	5.03	5.36
Colonial First State Investments Ltd	43.6	150.6	172.2	-12.60	-1.69	6.20	5.76
MLC Implemented Consulting	28.2	97.1	114.6	-15.19	-3.49	3.59	4.68
Total	100.0	345.2	403.8	-14.46	-2.82	5.25	5.42
Benchmark – InTech Growth Portfolio				-13.32	-3.51	3.09	3.94
Performance of COSR relative to benchmark				-1.14	+0.69	+2.16	+1.48

Investment Environment

July – September 2008

- The Reserve Bank of Australia (RBA) cuts its official cash rate by 0.25 per cent from 7.25 per cent to 7.00 per cent, the first easing in monetary policy since 2001. The RBA noted a slowing in demand and growth due to tight financial conditions, high fuel costs and lower asset values. The uncertain global economic outlook, and an expectation that inflation would decline over the medium term, prompted the RBA Board to adopt a less restrictive monetary policy.
- The Australian dollar falls by 16 per cent in the September quarter as offshore investors liquidate Australian assets due to further deterioration in global credit markets, expectations for reductions in Australian interest rates and declining commodity prices.
- A marked increase in financial market volatility during the quarter due to the failure of several large financial institutions (notably Lehman Brothers) and the nationalisation of other financial institutions in the United States (US) and Europe. Public policy responses culminated in the US Government's plan for the US Treasury to purchase distressed assets from financial institutions in order to facilitate the process of balance sheet repair. Deposit and debt guarantees were also instituted in some countries. Sharply worsening conditions in international financial markets during the quarter, and consequential deterioration in the global economic outlook, led to substantial falls in domestic asset prices and credit growth slowed to unusually low levels. Access to funding was becoming increasingly difficult, suggesting that economic activity, which had already slowed significantly, would probably slow further.
- 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 2008

- The Australian Government implements its guarantee arrangements for deposits and wholesale funding of eligible ADIs. The arrangements are designed to assist Australian banks, building societies and credit unions to continue to access funding and ensure they are not disadvantaged relative to international banks that already had government support.
- The RBA cuts the benchmark interest rate a further 2.75 per cent to 4.25 per cent during the December quarter. The RBA cited the deteriorating global growth outlook, worsening credit market conditions and corresponding increase in wholesale funding costs as the main reasons for the need for a further easing of monetary policy.
- Despite the domestic economy performing relatively better than other industrialised economies during the December quarter, leading business indicators suggested that investment and hiring intentions were being radically scaled back. In contrast, households were benefiting from higher real disposable incomes due to lower fuel prices and declining interest rates, although the impact on spending was tempered somewhat by a softening labour market.
- In October 2008, the Australian Government announced a \$10.4 billion lump sum Economic Security Strategy to eligible Australians. The payment was to provide income support for pensioners with immediate financial help in the lead-up to comprehensive reform of the pension system. The one-off payment in December 2008 was designed to strengthen the national economy and support Australian households, given the risks of a deep and prolonged global economic slowdown.
- 10-year Australian Government bond yields fall to around 4 per cent, a level last recorded in the 1950s, in line with global investment trends away from risk assets into government guaranteed securities.

January – March 2009

- The Australian Government announces its \$42 billion fiscal stimulus plan in February to stimulate the economy through short-term and immediate spending measures.
- Further easing of monetary policy, with the RBA cutting the official cash rate another 1 per cent to 3.25 per cent, the lowest point since 1960. In reaching this decision, the RBA noted that it would take some time for monetary and fiscal policy measures to have a material impact on the domestic economy and that the short-term outlook for demand and output remained weak.
- Conditions in credit and equity markets turned slightly more positive in the March quarter, led by tentative signs of recovery in international economic data releases, positive earnings announcements by some US banks and the announcement of US plans to stabilise the financial system.
- During the quarter there was evidence of improving conditions in domestic credit markets. Issuance of government guaranteed debt, particularly by Australian banks, increased rapidly and investors showed greater appetite for corporate debt issues. Overall, credit spreads remained high, however, spreads on short-term debt fell considerably. The March quarter was also characterised by a high level of domestic equity raisings by non-financial companies.

April – June 2009

- The RBA announced a further cut to the official interest rate of 0.25 per cent to 3.00 per cent in April. The Bank recognised the substantial monetary and fiscal stimulus already in place, but cited the weaker than expected near-term outlook for demand and output in Australia as supportive of a modest reduction in the cash rate.
- Conditions in global credit and equity markets continued to improve during the quarter, with credit spreads returning to levels not seen since the collapse of Lehman Brothers in September 2008. Domestically, short-term money market spreads contracted to levels not seen since the onset of the global financial crisis.
- The Australian sharemarket finished 24 per cent down for the 2008-09 fiscal year, but recent economic data suggests economic activity is improving. Exports are relatively strong, household spending is increasing due to lower interest rates and fiscal stimulus, housing loan approvals are rebounding strongly and business confidence is improving. Therefore, even despite a softening labour market, there are tentative signs of economic recovery. As a result, markets began to price in a return to a more neutral monetary policy stance, pushing medium and long-term interest rates higher by the end of the June quarter.

