



Australian Government

Australian Office of Financial Management

AOFM

CORPORATE PLAN

2023-24



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MESSAGE FROM OUR CEO



The Australian Office of Financial Management (AOFM) issues debt securities on behalf of the Australian Government. We manage its cash and debt portfolios and advise on various financial risks. We also support smaller lenders by making investments through securitisation markets. Through our activities, the AOFM supports a well-functioning Australian Government Securities (AGS) market.

This Corporate Plan – for the reporting period 2023-24 to 2026-27 – sets out how we will continue to achieve our purpose. It provides an overview of our operating environment, strategic priorities, activities, risks, and capabilities, and how we will measure our performance.

While bond markets continue to function well with broadly based investor participation and strong liquidity, disruptive surprises can appear from anywhere. Therefore, it is important that we stay focused on core responsibilities including our key strategic priorities and risks. As we saw through the pandemic, strong working relationships with participants in the AGS market are crucial and we will continue to work to protect those relationships.

Our effectiveness as an entity will always be underpinned by the capability of our staff, and our ability to respond quickly to changing market conditions while working within our risk appetite.

This year we have reset our organisational values, Trust, Excellence, and Diversity, which will underpin how we deliver our key purposes. We are focused on the wellbeing of our staff and building a diverse and inclusive culture. In the battle for talent, it is important that we continue to enhance our reputation as an employer of choice.

I am pleased to present our Corporate Plan as required under paragraph 35(1) (b) of the *Public Governance, Performance and Accountability Act 2013 (PGPA) Act* and I look forward to reporting on our progress in the AOFM Annual Report.

Anna Hughes

Chief Executive Officer
Australian Office of Financial Management

OUR VALUES



TRUST

To act reliably with integrity and transparency.
To work respectfully and collaboratively.



EXCELLENCE

To continuously improve through curiosity and innovation.
To adapt to changing circumstances and deliver as a prominent, respected authority.



DIVERSITY

To welcome all perspectives and embrace different ideas.
To be valued as our authentic selves, and to respect and include everyone.

OUR OPERATING ENVIRONMENT

As an issuer with domestic and international investors, our borrowing activities are impacted by developments in local and foreign markets. We consider fiscal forecasts, global macroeconomic contexts, and funding market conditions when we develop our annual strategies for managing liquidity and debt issuance.

The global economy

The global economy has been characterised by rapid central bank policy tightening in response to persistently high inflation. Globally, demand has been robust, and unemployment has declined to multi-decade lows. Recently, there have been signs that inflation has peaked.

Over the coming year, the global macroeconomic environment outlook is for a gradual decline in inflation and weaker growth. Unemployment rates are expected to rise slightly.

Outlook for risks

Risks to the global economic outlook are skewed towards a more pronounced slowdown in economic activity, with market pricing indicating that central banks will pause, or possibly pivot to easing policy in several major economies.

The broader global financial system has remained resilient, although further financial sector stress could lead to a larger slowdown in growth. While risks are heightened globally, the Australian financial system is in a strong position to weather these challenges.

Outlook for bond markets

Following a large increase in interest rates over 2022, the outlook for bond yields is now more balanced. The pace of interest rate rises has begun to slow.

The rapid rise in policy rates to address inflation has exposed vulnerabilities in the financial sectors of some countries. Bond markets have experienced intermittent periods of volatility due to financial market stresses. Conditions are expected to stabilise as the effects of central bank hiking cycles become clearer. To manage this, our liquidity and debt management strategies for 2023-24 aim to support the AGS market while managing refinancing risk.

Our capability

Purpose

The AOFM needs to fulfil 4 key purposes:

- 1 Meet the government's annual financing task while managing the trade-offs between costs and risks
- 2 Ensure the government can always meet its cash outlay requirements
- 3 Conduct market-facing activities in a manner that supports a well-functioning AGS market
- 4 Meet the priorities of the Australian Business Securitisation Fund (ABSF) and Structured Finance Support Fund (SFSF).

People

Our agency has a small workforce of 47 people. This includes people with highly specialised financial skills and a range of key enabling and support functions.

We are committed to providing a safe and professional work environment where people feel valued, respected, and treated fairly. Our Diversity and Inclusion Strategy, due for release in mid-2023, will support the AOFM's goals of increasing the diversity of our workforce and contributing to our ability to attract and retain the best people by seeking and utilising employees with diverse views and experiences. The AOFM Diversity and Inclusion policy aligns with Australian Public Sector-wide Diversity plans.

We are committed to a flexible, inclusive, and positive workforce culture – we value the diversity of our people. This includes improving our gender balance, which currently favours male employees 60% to 40%.

A focus for our agency is to close the gender pay gap through workplace policies and practices that address inequalities in pay and leadership and provide all our staff with more choices in managing paid and unpaid responsibilities. We seek to advance workplace gender equality outcomes and eliminate gender differences in pay, employment status, and progression into leadership.

The AOFM is committed to reconciliation, enhancing our cultural competence, and increasing our awareness of and support for Aboriginal and Torres Strait Islander peoples.

We are also committed to recognising that people who have disabilities have a wide range of experiences, skills, abilities, and qualifications to bring. We want to ensure our workplace is suitable for people of all abilities and is welcoming and inclusive.

Though already demonstrating our commitment to attracting a diverse workforce in our job advertising, we will be expanding our recruitment efforts into specialised disability recruitment sites during 2023-24.

Information and data

Our agency relies on high-quality information and communications technology (ICT) and data for analysis, decision-making, executing transactions, and managing resources.

The Treasury supplies our ICT capacity. This allows us to benefit from the scale of Treasury's resources and expertise.

The AOFM also uses cloud computing for some services. The benefits of this include flexibility, access to economies of scale, and access to innovative technology. In 2023-24 the AOFM will continue to examine options for enhancing ICT by expanding our use of cloud computing.

Our vision is that information and data are relevant, high-quality, accessible, consistent, and understood. Our priorities for the coming year include:

- implementing the 2022-24 data management strategy
- embedding our data management policy into business practices
- participating in Treasury's Information Technology (IT) modernisation project to benefit our information management.

Our risk oversight and management

Our agency fosters a positive risk culture. We encourage our people to engage with risk and ensure that the best-informed decisions are made in pursuit of our vision and purposes.

The AOFM maintains a risk governance framework that consists of an Enterprise Risk Management (ERM) framework. This is alongside our financial risk management and investment policies which are tailored to our debt and asset portfolio responsibilities.

Our approach to risk management is aligned with the Commonwealth Risk Management Policy and industry best practice. We consider risk and opportunity across 3 broad categories: strategic risk, portfolio risk, and operational risk. Our business units undertake regular scans to identify emerging risks and new opportunities to improve operational efficiency and effectiveness.

Our CEO has overall responsibility for risk management for our agency, supported by the Executive Leadership Group and the Operations Committee in oversight and championing of risk management. The Audit and Risk Committee provides advice to the CEO on the appropriateness of the AOFM's risk and internal control frameworks.

Our risk culture remains consistently positive. Maturity over the medium term will be progressed through the implementation of a risk culture roadmap.

Our roadmap priorities relate to:

- linking risk management to the performance framework by defining risk behaviours and measuring performance against those desired risk behaviours
- developing meaningful key performance indicators to measure current risk culture status against desired risk culture status.

Key risk profile

Our agency faces several strategic risks and opportunities in performing our role over the period of this plan:

- **Strategic risks**
If realised, would have a significant impact on achieving one or more of our purposes
- **Strategic opportunities**
If exploited, would assist in progressing our strategic priorities.

Table 1 outlines these risks and key management actions.

Table 1: Our key risk profile

MANAGEMENT ACTIONS	
OPPORTUNITIES	
Enhance our human capital	<ul style="list-style-type: none">• Develop a new workforce plan that prioritises talent attraction and retention and operational agility.• Improve our employee experience by implementing engagement initiatives, including opportunities to share thought leadership and expertise.
Implement a Sovereign Green Bond Program	<ul style="list-style-type: none">• Leverage our investor relations program and existing networks to gauge market expectations for Australian green bonds.• Leverage interdepartmental committees to collaborate with other Commonwealth agencies on expectations alignment for criteria and reporting for Commonwealth green projects.• Engage specialist advisors to assist with the development of a framework that will enhance the credibility of Australian green bonds.
STRATEGIC RISKS	
The market loses confidence in our ability to meet our purposes.	<ul style="list-style-type: none">• Deliver an investor relations program to foster collaboration and understanding of the AGS investor base.• Conduct regular industry engagement in support of the AGS and securitisation markets.• Operate transparently and in a manner that enhances our credibility in AGS and securitisation markets.
Compromise of one or more key suppliers severely impacts our ability to deliver our operational responsibilities.	<ul style="list-style-type: none">• Maintain strong, collaborative relationships with our key suppliers.• Seek assurance over third party business continuity and disaster recovery arrangements.• Capitalise on emerging technologies to drive ICT transformation.

Our cooperation

Our agency engages with a cross-section of external parties such as industry bodies, market participants, and government agencies. We do this to share the insights we gain at the interface of government and financial markets with policymakers to support their deliberations and to benefit from the experience of issuers, investors, and intermediaries to support our own deliberations.

Our agency has engaged with sovereign and state government green bond issuers, and other Commonwealth agencies to help inform settings for the Australian green bond program.

We collaborate with the Australian securitisation industry through an Australian Securitisation Forum working group to establish and promote a performance data template for small-to-medium enterprise (SME) lenders. This supports the establishment of a track record for new kinds of SME lending that will assist credit rating agencies and investors to attract capital to this sector.

We have cooperated with Treasury and other members of the Council of Financial Regulators by sharing observations on conditions in the markets in which we operate.

Our agency has also cooperated with Treasury by providing advice on sovereign balance sheet risks, valuations, and related matters.

We undertake extensive liaison with participants in the AGS market so that we can better understand trends and drivers of activity – such as buying and selling AGS – and make informed decisions around our funding operations.

Through our participation in the Organisation for Economic Co-operation and Development (OECD) Working Party for Debt Management, we share our experiences and benefit from the experiences of other leading sovereign debt management practitioners.

Our subsidiaries

The AOFM has no subsidiaries.

OUR KEY ACTIVITIES

Our agency will achieve its purposes by delivering 11 key activities over a 4-year period.

Table 2: Key AOFM activities and strategies

KEY ACTIVITIES AND STRATEGIES	2023-24 TO 2026-27
ESTABLISH A DEBT MANAGEMENT STRATEGY	✓
<ul style="list-style-type: none"> • consistent with a prudent sovereign debt management approach • that anticipates the broad market outlook and attendant risks • to meet the Budget financing task • to meet projected debt portfolio requirements (such as the need for new maturities) • to effectively balance borrowing cost and portfolio risks 	
EXECUTE THE DEBT ISSUANCE PROGRAM	✓
<ul style="list-style-type: none"> • consistent with the annual debt management strategy • through weekly issuance decisions that take prevailing conditions into account • through issuance choices to support the market and reduce the risk of failed transactions • by adjusting issuance if material unanticipated external events arise 	
SETTLE TRANSACTIONS AND COUPON AND REDEMPTION PAYMENTS	✓
<ul style="list-style-type: none"> • in a complete, timely and accurate manner 	
MONITOR COSTS AND RISKS OF THE PORTFOLIO OF ASSETS AND LIABILITIES	✓
<ul style="list-style-type: none"> • by measuring the cost and risk structure of each portfolio 	
ESTABLISH A LIQUIDITY MANAGEMENT STRATEGY	✓
<ul style="list-style-type: none"> • that considers the broad outlook for funding market conditions • that defines an appropriate liquidity buffer • designed to maintain ready access to the Treasury Note market 	
CONDUCT THE CASH MANAGEMENT TASK	✓
<ul style="list-style-type: none"> • consistent with the liquidity management strategy • to always meet government expenditure requirements • to meet minimum liquidity requirements 	

COMMUNICATE AOFM OPERATIONS CLEARLY AND CONSISTENTLY TO THE MARKET

- through periodic updates of planned annual gross issuance
- by maintaining weekly announcements of impending issuance
- through timely disclosure of issues of strategic importance to markets

CONDUCT A MARKET ENGAGEMENT PROGRAM

- in accordance with an annually revised plan
- through periodic engagement with financial market intermediaries and key investors (domestic and offshore)

SUPPORT FINANCIAL MARKET LIQUIDITY

- by monitoring secondary market activity
- through regular weekly issuance having considered market conditions
- by maintaining a securities lending facility

MANAGE THE ABSF PROGRAM BY

- seeking ABSF proposals from relevant market participants
- making investments in suitable proposals
- meeting subscription notices
- monitoring investment performance

MANAGE THE SFSF PROGRAM BY

- meeting subscription notices
- exiting warehouse financing facilities in an orderly fashion on expiry of arrangements
- monitoring investment performance

OUR PERFORMANCE

Purpose 1: Meet the government’s annual financing task while managing the trade-offs between costs and risks

- KEY ACTIVITY 1.1 ESTABLISH A DEBT MANAGEMENT STRATEGY:**
- consistent with a prudent sovereign debt management approach
 - that anticipates the broad market outlook and attendant risks
 - to meet the Budget financing task
 - to meet projected debt portfolio requirements (such as the need for new maturities)
 - to effectively balance borrowing cost and portfolio risks.

PERFORMANCE MEASURE **Annual debt management strategy:** formulate an annual debt management strategy and advise the Secretary to the Treasury with supporting analysis.

Methodology Review of internal records (Executive Minutes and record of annual strategy briefing session).

TARGETS

2023-24 to 2026-27 Prior to start of fiscal year

Data sources Internal records

- KEY ACTIVITY 1.2 EXECUTE THE DEBT ISSUANCE PROGRAM:**
- consistent with the annual debt management strategy
 - through weekly issuance decisions that take prevailing conditions into account
 - through issuance choices to support the market and reduce the risk of failed transactions
 - by adjusting issuance if material unanticipated external events arise.

PERFORMANCE MEASURE **Term issuance:** the shortfall in volume in dollar terms for the fiscal year between actual Treasury Bond issuance and planned issuance announced at the most recent official budget related update.

Methodology Calculation that relies on internal inputs (actual issuance) from the Quantum Treasury System and public program announcements (planned issuance) from the AOFM website.

TARGETS

2023-24 to 2026-27 Zero

Data sources Quantum Treasury System data and AOFM website

PERFORMANCE MEASURE	New issuance yields: the weighted average issue yield at Treasury Bond and Treasury Indexed Bond tenders compared to prevailing mid-market secondary yields.
Methodology	Calculation that relies on inputs (yields and spreads) from Treasury System data.
TARGETS	
2023-24 to 2026-27	At or below mid-market yields
Data sources	Quantum Treasury System data
PERFORMANCE MEASURE	Tender coverage ratio: the average tender coverage ratio across all tenders for the fiscal year.
Methodology	Calculation that relies on inputs (volume of bids received and amount allotted) from Treasury System data.
TARGETS	
2023-24 to 2026-27	Greater than 2.5 times
Data sources	Quantum Treasury System data
KEY ACTIVITY 1.3	SETTLE TRANSACTIONS AND COUPON AND REDEMPTION PAYMENTS:
	<ul style="list-style-type: none"> in a complete, timely and accurate manner.
PERFORMANCE MEASURE	Settlement of AGS transactions: number of times AGS transactions fail to settle in a complete, timely and accurate manner where the AOFM is responsible for the failure.
Methodology	Analysis of internal records (incident reports).
TARGETS	
2023-24 to 2026-27	Zero
Data sources	Internal incident reports
PERFORMANCE MEASURE	Settlement of AGS coupons and redemptions: number of times AGS coupon and redemption payments fail to occur in a complete, timely and accurate manner where the AOFM is responsible for the failure.
Methodology	Analysis of internal records (incident reports).
TARGETS	
2023-24 to 2026-27	Zero
Data sources	Internal incident reports

KEY ACTIVITY 1.4	MONITOR COSTS AND RISKS OF THE PORTFOLIO OF ASSETS AND LIABILITIES: <ul style="list-style-type: none"> • by measuring the cost and risk structure of each portfolio.
PERFORMANCE MEASURE	Financing costs – issuance: the cost of Treasury Bond issuance in percentage terms over the past 12 months compared to the average 10-year bond rate over the same period.
Methodology	Calculation that relies on internal inputs (tender yields, spreads and the 10-year bond yield) from the Quantum Treasury system.
TARGETS	
2023-24 to 2026-27	Lower
Data sources	Quantum Treasury System data

Purpose 2: Ensure the government can always meet its cash outlay requirements

KEY ACTIVITY 2.1	ESTABLISH A LIQUIDITY MANAGEMENT STRATEGY: <ul style="list-style-type: none">• that considers the broad outlook for funding market conditions• that defines an appropriate liquidity buffer• designed to maintain ready access to the Treasury Note market.
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PERFORMANCE MEASURE	Annual liquidity management strategy: formulate an annual liquidity management strategy and advise the Secretary to the Treasury with supporting analysis.
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Methodology	Review of internal records (Executive Minutes and record of annual strategy briefing session).
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TARGETS

2023-24 to 2026-27	Prior to start of fiscal year
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Data sources	Internal records
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KEY ACTIVITY 2.2	CONDUCT THE CASH MANAGEMENT TASK: <ul style="list-style-type: none">• consistent with the liquidity management strategy• to always meet government expenditure requirements• to meet minimum liquidity requirements.
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PERFORMANCE MEASURE	Use of overdraft facility: the number of instances the RBA overdraft facility was utilised.
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Methodology	Analysis of internal records (notifications from RBA).
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TARGETS

2023-24 to 2026-27	Zero
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Data sources	Internal records
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Purpose 3: Conduct market-facing activities in a manner that supports a well-functioning AGS market

KEY ACTIVITY 3.1 COMMUNICATE AOFM OPERATIONS CLEARLY AND CONSISTENTLY TO THE MARKET:

- through periodic updates of planned annual gross issuance
- by maintaining weekly announcements of impending issuance
- through timely disclosure of issues of strategic importance to markets.

PERFORMANCE MEASURE **Market commitments:** the number of times the AOFM failed to conduct issuance operations consistent with prior market announcements.

Methodology Content review: CEO's Australian Business Economists speech; and public announcements on the issuance program.

TARGETS

2023-24 to 2026-27 Zero

Data sources AOFM website

KEY ACTIVITY 3.2 CONDUCT A MARKET ENGAGEMENT PROGRAM:

- in accordance with an annually revised plan
- through periodic engagement with financial market intermediaries and key investors (domestic and offshore).

PERFORMANCE MEASURE **Investor publications:** number of times investor-targeted information publications are updated and made available on the AOFM website.

Methodology Review of internal records (investor chart packs).

TARGETS

2023-24 to 2026-27 At least twice per year

Data sources Internal records

KEY ACTIVITY 3.3 SUPPORT FINANCIAL MARKET LIQUIDITY:

- by monitoring secondary market activity
- through regular weekly issuance having considered market conditions
- by maintaining a securities lending facility.

PERFORMANCE MEASURE **Secondary market turnover:** the annual turnover in dollar value terms in the secondary market for Treasury Bonds and Treasury Indexed Bonds in a fiscal year.

Methodology Data collected via monthly counterparty surveys and published quarterly.

TARGETS

2023-24 to 2026-27	Greater than previous fiscal year
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Data sources	Counterparty turnover surveys
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Purpose 4: Meet the priorities of the ABSF and SFSF

KEY ACTIVITY 4.1**MANAGE THE ABSF PROGRAM BY:**

- seeking ABSF proposals from relevant market participants
- making investments in suitable proposals
- meeting subscription notices
- monitoring investment performance.

PERFORMANCE MEASURE

ABSF rate of return: the accrual earnings (net of losses) for a fiscal year divided by the average drawn (invested) amount in percentage point terms.

Methodology

Calculation that relies on inputs (accrual earnings, average drawn) from the Quantum Treasury System. The calculated rate of return is compared to an independently published market index.

TARGETS

2023-24 to 2026-27	Greater than Bloomberg AusBond Treasury 0-1 year index
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Data sources	Quantum Treasury System and Bloomberg
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KEY ACTIVITY 4.2**MANAGE THE SFSF PROGRAM BY:**

- meeting subscription notices
- exiting warehouse financing facilities in an orderly fashion on expiry of arrangements
- monitoring investment performance.

PERFORMANCE MEASURE

SFSF losses: gross credit losses for a fiscal year divided by the average drawn amount in percentage point terms.

Methodology

Calculation that relies on inputs (gross losses, average drawn amount) from the Quantum Treasury System.

TARGETS

2023-24 to 2026-27	Zero
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Data sources	Quantum Treasury System
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