

PART 1: AOFM OVERVIEW

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AOFM OVERVIEW

AOFM role, functions, outcome and output structure

The Australian Office of Financial Management (AOFM) is a specialised agency within the Australian Public Service responsible for all operational aspects of Commonwealth debt management. Established on 1 July 1999, it undertakes the administration, financial and operational risk management, and financial reporting of the Government's portfolio of Commonwealth Government securities and associated assets. The AOFM issues Treasury bonds and Treasury notes, invests in term deposits with the Reserve Bank of Australia, manages the Government's cash and conducts interest rate swaps.

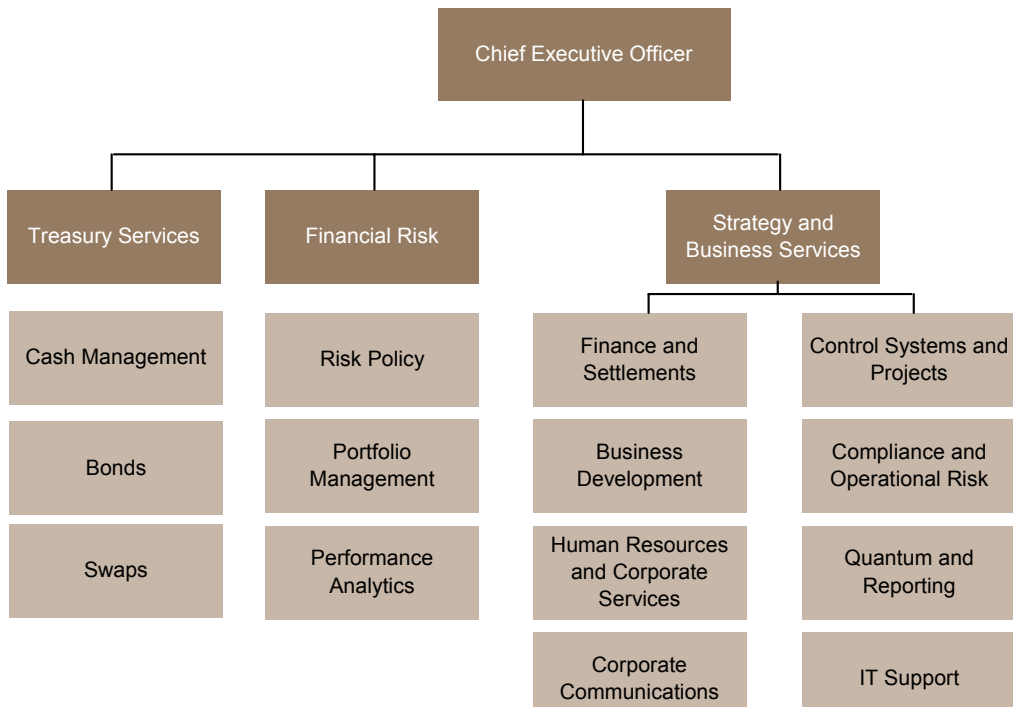
The AOFM forms part of The Treasury Portfolio. It is accountable to the Treasurer and through him to the Australian Government, the Parliament and the public. Staff are employed under the *Public Service Act 1999* utilising Australian Workplace Agreements. However, the agency's finances are separate from those of The Treasury as it is a prescribed agency under the *Financial Management and Accountability Act 1997*.

The outcome of the AOFM is 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. To achieve this outcome the AOFM delivers a single output – debt management. Through the efficient management of the Commonwealth's net debt the AOFM also contributes to the overall Treasury portfolio outcome of strong, sustainable economic growth and the improved wellbeing of Australians.

Organisational structure

The AOFM's organisational structure was reviewed during the year. A three group structure was retained but with some adjustments in the distribution of activities to provide a more coherent grouping of related tasks while maintaining the separation of tasks such as execution and settlement.

Figure 1: AOFM organisational structure



Funding

Table 1 provides an overview of the funding requirement and funding sources for the Australian Government's debt management task in 2003-04.

The Government had a negative net funding requirement of \$4.6 billion in 2003-04. After allowing for debt that matured or was repurchased in 2003-04, there was a gross funding requirement of \$1.2 billion. Funds raised from debt issuance amounted to \$3.4 billion, giving a net increase in asset balances of \$2.2 billion.

Table 1: General government sector funding requirement and funding sources

Funding requirement	Actual 2003-04 (\$billion)	Funding sources	Actual 2003-04 (\$billion)
Net funding requirement		Debt issuance(c)	
Headline budget balance(a)	-7.6	Treasury bonds	3.4
Payment to Telstra Superannation Scheme	3.1	Treasury Indexed bonds	0.0
Other financing(b)	-0.1	Treasury notes (net change in outstandings)	0.0
Total	-4.6	Total	3.4
Debt redemption(c)		Asset balances	
Maturing debt	5.8	Change in overnight cash balance at the RBA(d)	0.5
Early debt repurchases	..	Change in term deposits at the RBA(e)	-2.7
Total	5.8	Total	-2.2
Gross funding requirement	1.2	Total funding sources	1.2

(a) A negative balance denotes a surplus.

(b) Includes receipts and payments relating to swap transactions, transactions with the International Monetary Fund and other transactions not elsewhere classified.

(c) Reflects cash amount rather than face value of securities.

(d) A positive sign denotes a decrease in overnight cash balances.

(e) A negative sign denotes an increase in term deposits.

Not all totals may sum exactly due to rounding.

.. not zero.

Table 2 summarises the gross resources applied by the AOFM in 2003-04 and budgeted for 2004-05, both from appropriations and other sources and for recurrent and capital purposes.

Agency recurrent funding is used to meet operating expenses, such as employee entitlements and supplier payments. Agency capital funding received in 2003-04 related to additional funding to meet implementation costs associated with the Budget Estimates and Framework Review recommendations.

Administered recurrent funding is used to meet operating expenses, such as interest on Australian Government debt and swap interest payments (in aggregate terms).

Capital funding is used to meet the cost of maturing Australian Government debt and to make investments for the purposes of debt management. During the 2003-04 financial year the AOFM placed a total of \$128.7 billion on investment, of which \$126.0 billion matured during the financial year, resulting in a net increase of \$2.7 billion. These figures primarily reflect short-term transactions in term deposits with the Reserve Bank of Australia undertaken as part of the AOFM's daily cash management activities. The gross volume of these transactions accumulated over the course of a financial year is highly unpredictable; estimates are based on standardised assumptions.

Table 2: AOFM gross appropriations and other funding

	Budget 2003-04 (\$'000)	Actual 2003-04 (\$'000)	Budget 2004-05 (\$'000)
<u>(a) FUNDING FOR RECURRENT PURPOSES</u>			
ADMINISTERED			
Administered appropriations			
Annual appropriations	10	-	10
Special appropriations	5,489,094	5,606,329	5,976,429
Total administered appropriations	5,489,104	5,606,329	5,976,439
AGENCY			
Annual appropriations	8,135	8,135	8,097
Total revenue from government (appropriations) contributing to price of agency outputs	8,135	8,135	8,097
Percentage of total price of outputs	100.0%	96.6%	100.0%
Revenue from other sources			
Other sources	-	288	-
Total revenue from other sources	-	288	-
Total price of agency outputs	8,135	8,423	8,097
Total resourcing - recurrent purposes	5,497,239	5,614,752	5,984,536
<u>(b) FUNDING FOR CAPITAL PURPOSES</u>			
ADMINISTERED			
Administered appropriations			
Annual appropriations	-	-	-
Special appropriations	122,258,434	160,657,986	81,845,995
Total administered appropriations	122,258,434	160,657,986	81,845,995
AGENCY			
Agency equity injections	23	23	-
Total resourcing - capital purposes	122,258,457	160,658,009	81,845,995
Total resourcing for AOFM Outcome	127,755,696	166,272,761	87,830,531
Administered	127,747,538	166,264,315	87,822,434
Departmental	8,158	8,446	8,097
	Budget 2003-04	Actual 2003-04	Budget 2004-05
Average staffing level (number)	38	33	38

Note: 2003-04 figures incorporate variations made in the 2003-04 Portfolio Additional Estimates Statements.

