

ACTIVE CORPORATE PLAN 2022–23

CHIEF EXECUTIVE OFFICER'S INTRODUCTION

The 2022-23 Australian Office of Financial Management's (AOFM) Corporate Plan has been prepared in accordance with paragraph 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). This plan focuses on current and emerging issues over the 2022-2026 reporting periods.

The AOFM Corporate Plan guides the development of corporate projects and annual Business Group plans and helps to set the context for individual performance expectations. The corporate planning process is based on identifying and assessing current and emerging risks and opportunities for the AOFM. Given its operations are in large part influenced by changes to global financial market conditions, risks and opportunities will continue to be influenced by a range of factors from beyond Australian shores.

Throughout most of 2021-22, bond markets sold-off (yields rose as prices fell). This move was driven by accelerating market expectations for inflationary pressures to become established and that central bank monetary policy responses would swiftly follow. The United States of America and Europe have each attracted particularly strong focus given the size and influence of their financial markets.

The bond market sell-off accelerated dramatically in early calendar 2022. Should central banks be forced over the coming year to respond to sustained inflation with a strong succession of cash rate rises and active balance sheet reductions (a reversal of Quantitative Easing (QE) programs), this could create unprecedented circumstances. In this regard the potential for financial markets to remain volatile is heightened.

While at times market issuance opportunities may be tightened, this should not impede the overall borrowing program for sovereign debt issuers (like the AOFM). With forecast continued strengthening of the Australian Government Budget position, the AOFM's call on funding markets will be relatively lower, reducing risks that would otherwise be faced in volatile market circumstances at times when the borrowing program is extremely high (as it was in 2020-21). Australia retains ready access to funding markets, but the dynamics of these markets are driven by global forces. Therefore, at times these dynamics have the potential to dictate the AOFM's choices of how to execute the borrowing program. That said, the AOFM maintains operational flexibility to deal with periods of market stress.

Domestic funding market conditions have recovered significantly since the onset of the COVID-19 pandemic. As a result, calls on the Structured Finance Support Fund (SFSF) to maintain capital flow to the small and medium enterprise (SME) lending sector have fully abated. The AOFM has substantially achieved a winding down of this program and focus has returned to furthering market development objectives through the longer-term Australian Business Securitisation Fund (ABSF) program.

Organisational performance against the Corporate Plan will be monitored using key performance indicators as per past practice.

Rob Nicholl

Chief Executive Officer
Australian Office of Financial Management

CORPORATE PLAN 2022-23

Empowering people through opportunity, collaboration and support to achieve outstanding results.



Our vision

Excellence in sovereign financial management.



Our mission

To meet the Australian Government's debt financing needs and, as directed, domestic lending market policy objectives.



Our purposes

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

KEY ACTIVITIES

The AOFM will achieve its purposes by delivering 11 key activities over the four-year period.

Table 1: Key AOFM activities and strategies

KEY ACTIVITIES AND STRATEGIES	2022-23 to 2025-26
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 	
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 	
SETTLE TRANSACTIONS AND COUPON AND REDEMPTION PAYMENTS	•
in a complete, timely and accurate manner	
MONITOR COSTS AND RISKS OF THE PORTFOLIO OF ASSETS AND LIABILITIES	*
by measuring the cost and risk structure of each portfolio	
ESTABLISH A LIQUIDITY MANAGEMENT STRATEGY	•
 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	*
 consistent with the liquidity management strategy to always meet government expenditure requirements to meet minimum liquidity requirements 	

KEY ACTIVITIES AND STRATEGIES	2022-23 to 2025-26
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 OPERATING CONTEXT

External environment

The AOFM considers fiscal forecasts, global economic performance and funding market activities when developing its annual debt management strategy.

Impact of inflation on global economy

Global economic conditions have evolved rapidly in the past year. For the past decade or so, most developed market economies have operated in a low and stable inflation environment. More recently, inflation outcomes have been well above most central banks' target ranges and in response, they have begun to tighten monetary policy and have strongly signalled that more tightening could follow.

Despite robust growth and employment outcomes, the outlook for inflation and interest rates remains uncertain. Inflation may persist at an elevated level, eliciting a stronger response from policy makers. Alternatively, risks to the growth outlook may prompt a need for easier monetary conditions than are currently priced into the market.

Outlook for risks

Although near-term outcomes for global economic growth have been robust, the Reserve Bank of Australia (RBA) characterises the balance of risks to the economic outlook as 'skewed to the downside.'

These risks include:

- · financial conditions tightening more quickly than implied by market pricing
- the global economy possibly being more sensitive to falling real incomes (and consumption)
 than envisaged
- the Chinese economy slowing more sharply than forecast if outbreaks in COVID-19 are not contained quickly
- · long-running macrofinancial vulnerabilities worsening.

Outlook for bond markets

Conditions in bond markets have been volatile, including many days of extreme moves in bond yields. With monetary policy settings anticipated to become more restrictive, markets are expected to remain volatile.

^{1 &#}x27;Statement on Monetary Policy', Reserve Bank of Australia, May 2022, https://www.rba.gov.au/publications/smp/2022/may/

Our capability

People

The work of the AOFM requires people with technical skills and experience in both financial markets and public administration. AOFM officials maintain broad market and economic knowledge and tap information networks relevant to global financial markets.

Workforce capabilities are enhanced through on-the-job training, professional development, access to a wide range of learning resources and regular exposure to important workplace experience.

By investing in its people and promoting a culture of professionalism and high standards, the AOFM aims to be the destination of choice for high quality recruits (especially at the graduate level).

The AOFM has a strong risk aware culture and staff are well-versed in risk identification and management. Other agencies tap our expert market advice from time to time.

Our recruitment efforts have yielded strong results with successful candidates being highly qualified and very capable. Recruitment is targeting the right skill and experience match for AOFM roles and supports a high performing workplace that can meet current and emerging challenges. We maintain a clear understanding of the AOFM's workforce needs and understand the need for professional development planning.

In 2022-23, the AOFM will develop a medium-term workforce plan to ensure it is maintaining an appropriate focus on recruitment, training, and development.

Information technology

The AOFM's Information technology (IT) requirements are delivered by Treasury under a memorandum of understanding; this provides access to Treasury's IT platform and technical support.

Receiving IT services from Treasury gives the AOFM economies of scale that cannot be replicated in-house, particularly given the increasing challenges of maintaining suitably qualified and experienced technical staff. However, some of the AOFM's IT needs differ from Treasury's to the extent that the AOFM undertakes time critical market transactions and at times would benefit from greater access to the flexibility offered by some business systems.

As cloud-based platforms have been found to meet the needs of other smaller agencies, the AOFM has been undertaking detailed technical and business availability analysis to better understand these options. To that end, the agency's IT Steering Committee (ITSC) is developing a business case to determine whether a cloud-based platform could provide appropriately flexible, fit for purpose IT solutions for the AOFM.

Risk oversight and management

The AOFM understands the importance of a risk-aware culture to promote proactive risk management through appropriate risk engagement and mitigation and informed decision making. The AOFM maintains an enterprise risk management (ERM) framework, financial risk management policies and an independently chaired Audit and Risk Committee. These governance arrangements provide clear and targeted oversight of risk management and internal controls.

The ERM framework builds on staff expertise in asset and debt portfolio management. The framework is aligned with the Commonwealth Risk Management Policy and industry best practice. It encourages staff to actively identify, evaluate, and engage with risk in an informed way. This occurs across strategic, portfolio, and operational levels. It also allows the AOFM to plan its pursuit of new opportunities.

The ERM framework is integrated into business planning, which is influenced by a risk appetite determined by the Executive Group. The Executive Group monitors the organisational risk profile and manages strategic risks. Business units undertake regular scans to identify emerging risks and new opportunities to improve operational efficiency and effectiveness.

As part of the 2022-23 corporate planning process, specific emerging risks and opportunities have been identified in addition to the more general risks highlighted in the external environment section (above). Emerging risks include: a tight labour market with the potential to impact recruitment and retention of staff; and the threat of cyber-attack(s) disrupting core operational delivery. Opportunities include: improving our data information management; actively promoting environmental, social and governance (ESG) financial market considerations within government in so far as they relate to the AOFM's core financing responsibilities; and further enhancing human capital through broader development opportunities.

The AOFM has specific risk management policies tailored to its debt and asset portfolio responsibilities. The Financial Risk Management Policy focuses on debt portfolio and liquidity management risks. It includes related strategies and relevant limits. The AOFM has in place investment policies for its securitisation funds, which are aligned with overarching legislation and directions.

The AOFM's risk culture remains consistently positive, exceeding comparable public and private sector benchmarks. Risk culture is monitored regularly through periodic internal audit reviews and whole-of-government surveys (such as Comcover Benchmarking).

Key risk profile

There are several key areas of risk facing the AOFM in undertaking its role, which arise from uncertainty of external factors or the implementation of major business initiatives. Table 2 outlines these risks and planned management actions.

Table 2: our key risk profile

	MANAGEMENT ACTIONS
OPPORTUNITIES	
Enhancing our human capital	 Developing a new workforce plan (using the current plan as a basis) to attract and retain talent with appropriate experience and to further upskill staff.
	 Providing staff with opportunities for development outside the AOFM and sharing agency expertise with other relevant parts of government.
STRATEGIC RISKS	
Failure to anticipate, recognise, or respond to emerging market trends; or evolving technology trends.	 Maintaining a comprehensive financial risk management policy to guide future operational resilience. Maintaining an up-to-date awareness of market conditions and outlook relevant to achieving the issuance task and portfolio management aims. Maintaining an ongoing dialogue with market participants and Treasury regarding market conditions, demand for AGS and industry reforms.
	 Maintaining readiness to respond to government policy decisions.
The market loses confidence in the AOFM's ability to meet its business objectives.	 Maintaining a relevant investor relations program to exchange information and best understand the AGS investor base. Conducting regular industry engagement in support of the AGS and securitisation markets.
	 Maintaining consistency in announcements and actions to support AOFM credibility and transparency in AGS and securitisation markets.
Compromise of one or more of the AOFM's key	 Maintaining strong, collaborative relationships with our key suppliers.
suppliers severely impacts the AOFM's ability to deliver our operational responsibilities.	 Monitoring service levels and issues arising from key contracts and working with the suppliers to enhance performance outcomes.
	 Ensuring third party business continuity (BC) and disaster recovery arrangements are in place.
PORTFOLIO RISKS	
Failure to settle tenders or to make interest or	 Maintaining highly specified and robust business procedures, systems, and controls.
maturity payments.	 Maintaining effective stakeholder relationships and contractual arrangements.
	 Maintaining mature BC plans and procedures and conducting regular testing.

Risk oversight and management

	MANAGEMENT ACTIONS
	MANAGEMENT ACTIONS
Inaccurate forecasts leading to a substantially different cash balance than planned.	 Maintaining strong relationships with key spending and revenue collection agencies that provide regular updates and early warning on potentially large changes. Daily cross-checking of cash flow forecasts with the Reserve Bank of Australia (RBA). Maintaining a financial risk management policy that specifies treatments to meet unforeseen cash shortfalls.
The AOFM is unable to meet government financing requirements.	 Maintaining a precautionary asset balance (liquidity buffer) adjusted as required to account for changes to risk assessments. Maintaining close engagement with Treasury and the RBA to inform our assessment of funding conditions. Maintaining operational flexibility in issuance choices to manage short-term unexpected shocks affecting the bond market. Maintaining access to an overdraft facility with the RBA.
OPERATIONAL RISKS	
The AOFM's IT infrastructure fails to meet business requirements or service levels, impacting the AOFM's ability to effectively perform its core activities.	 Holding regular contract management meetings to ensure adequate monitoring of IT services and forewarning of change control impacts. Maintaining multiple levels of redundancy through off-network access to industry systems and supplier stand-in arrangements. Developing alternate business models for IT service provision.
IT resources and/or other resources are not available or do not function as intended, causing disruption to time-critical business functions.	 Regularly testing BC arrangements, including live scenarios and third-party testing. Leveraging Treasury's IT security measures to manage potential cyber threats. Maintaining staff awareness and understanding of emerging IT vulnerabilities and defences to enhance their preparedness for associated business impacts.
The AOFM discloses market, commercially and/or politically sensitive information to external parties which could impact market prices, the government's reputation, or commercial business arrangements.	 Providing regular staff training on the principles set out in the <i>Protective Security Policy Framework</i> for handling of confidential information. Requiring staff to annually attest to understanding of and their adherence to the <i>Australian Public Service Code of Conduct and the Australian Financial Markets Association Code of Conduct.</i> Maintaining a recorded telephone lines policy to protect the interests of the AOFM.

Cooperation

The AOFM has strong financial market and inter-agency networks that support its forward planning and assessments of debt management and securitisation market needs.

To effectively manage the cash portfolio, the AOFM needs to work closely with Treasury, the Department of Finance, the Reserve Bank of Australia (RBA) and the Australian Taxation Office (ATO). Remaining up-to-date with changes to government outlay and tax receipt forecasts is an essential part of the role and is the basis for planning effective and efficient issuance programs.

To better understand changes within the global financial market environment, the AOFM actively engages with market participants including financial market intermediaries, investors, the RBA and other sovereign debt issuers. The AOFM has close ties to Treasury to prepare for and respond to material changes in government financing requirements.

The AOFM's strong, productive relationships with financial market intermediaries, investors, and the Australian Securitisation Forum supports decisions in response to applications under the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF) investment programs.

PERFORMANCE

The AOFM will achieve its purposes by delivering 11 key activities. Performance measures have been structured to align with the AOFM's purposes and key activities. The following table sets out the performance measures we will report against in the 2022-23 Annual Performance Statement.

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	
2022-23 to 2025-26	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	
2022-23 to 2025-26	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	
2022-23 to 2025-26	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	
2022-23 to 2025-26	Greater than 2.5 times
Data sources	Quantum Treasury System data.
KEY ACTIVITY 1.3	
RET ACTIVITY 1.3	SETTLE TRANSACTIONS AND COUPON AND REDEMPTION PAYMENTS:
RET ACTIVITY 1.5	 SETTLE TRANSACTIONS AND COUPON AND REDEMPTION PAYMENTS: in a complete, timely and accurate manner
PERFORMANCE MEASURE	
PERFORMANCE	 in a complete, timely and accurate manner Settlement of AGS transactions: number of times AGS transactions fail to settle in a complete, timely and accurate manner where the
PERFORMANCE MEASURE	• in a complete, timely and accurate manner 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.
PERFORMANCE MEASURE Methodology	• in a complete, timely and accurate manner 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.
PERFORMANCE MEASURE Methodology TARGETS	• in a complete, timely and accurate manner 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. Analysis of internal records (incident reports).
PERFORMANCE MEASURE Methodology TARGETS 2022-23 to 2025-26	• in a complete, timely and accurate manner 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. Analysis of internal records (incident reports). Zero

TARGETS	
2022-23 to 2025-26	Zero
Data sources	Internal incident reports.
KEY ACTIVITY 1.4	MONITOR COSTS AND RISKS OF THE PORTFOLIO OF ASSETS AND LIABILITIES:
	by measuring the cost and risk structure of each portfolio
PERFORMANCE	Financing costs - issuance: the cost of Treasury Bond issuance in
MEASURE	percentage terms over the past 12 months compared to the average 10-year bond rate over the same period.
MEASURE Methodology	· · · · · · · · · · · · · · · · · · ·
	10-year bond rate over the same period. Calculation that relies on internal inputs (tender yields, spreads and
Methodology	10-year bond rate over the same period. Calculation that relies on internal inputs (tender yields, spreads and
Methodology	10-year bond rate over the same period. Calculation that relies on internal inputs (tender yields, spreads and the 10-year bond yield) from the Quantum Treasury system.

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

KEY ACTIVITY 2.1	ESTABLISH A LIQUIDITY MANAGEMENT STRATEGY:
	 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
PERFORMANCE MEASURE	Annual liquidity management strategy: formulate an annual liquidity 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	
2022-23 to 2025-26	Prior to start of fiscal year
Data sources	Internal records.

KEY ACTIVITY 2.2	CONDUCT THE CASH MANAGEMENT TASK:
	 consistent with the liquidity management strategy to always meet government expenditure requirements to meet minimum liquidity requirements
PERFORMANCE MEASURE	Use of overdraft facility: the number of instances the RBA overdraft facility was utilised.
Methodology	Analysis of internal records (notifications from RBA).
TARGETS	
2022-23 to 2025-26	Zero
Data sources	Internal records.

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	
2022-23 to 2025-26	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	
2022-23 to 2025-26	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	Secondary market turnover: the annual turnover in dollar value
MEASURE	terms in the secondary market for Treasury Bonds and Treasury Indexed Bonds in a fiscal year.
Methodology	
	Indexed Bonds in a fiscal year.
Methodology	Indexed Bonds in a fiscal year.
Methodology TARGETS	Indexed Bonds in a fiscal year. Data collected via monthly counterparty surveys and published quarterly.

Purpose 4: Meet the priorities of the Australian Business Securitisation Fund (ABSF) and Structured Finance Support Fund (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	
2022-23 to 2025-26	Greater than Bloomberg AusBond Treasury 0-1 year index
Data sources	Quantum Treasury System and Bloomberg.

Performance

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	
2022-23 to 2025-26	Zero
Data sources	Quantum Treasury System.

