AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Annual Report 2022–23

ABOUT THIS REPORT

This report outlines the operations and performance of the Australian Office of Financial Management (AOFM) for the financial year ending 30 June 2023. It has been prepared in accordance with the provisions of section 46 of the *Public Governance, Performance and Accountability Act 2013*, the *Public Governance, Performance and Accountability Rule 2014* and the *Department of Finance Resource Management Guide No.135*.

The AOFM is an administrative entity within the Commonwealth of Australia.

This annual report can be found on the AOFM's website www.aofm.gov.au

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LETTER OF TRANSMITTAL

26 September 2023

The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA, ACT 2600

Dear Treasurer

I am pleased to present the annual report of the Australian Office of Financial Management (AOFM) for the year ended 30 June 2023.

The report has been prepared in accordance with all applicable obligations of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) including section 46, which requires that you, as the relevant Minister, table the report in Parliament.

The annual performance statement in Part 2 of this report is prepared in accordance with section 39 of the PGPA Act and accurately reflects the AOFM's performance for 2022–23.

The report includes the AOFM's audited financial statements prepared in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*.

I confirm the AOFM has in place appropriate fraud prevention, detection, investigation and reporting mechanisms, including fraud risk assessments and a fraud control plan. The AOFM has taken all reasonable measures to appropriately deal with fraud.

Yours sincerely

AE Hughes

Anna Hughes
Chief Executive Officer

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2022–23 ACTIVITIES AT A GLANCE

DEBT ISSUANCE

Bond issuance program met

$78.8b
of Treasury Bonds issued

$2.2b
of TIBs issued

$96.5b
of T-Notes issued

COVERAGE RATIOS AT TENDERS

Tender issuance readily achieved

3.3
for Treasury Bonds

3.2
for TIBs

5.1
for T-Notes

AVERAGE YIELD OF ISSUANCE

Higher yields than recent years

3.64%
for Treasury Bonds

1.17%
for TIBs (real yield)

3.17%
for T-Notes

Long-dated issuance bias

10 years weighted average maturity of Treasury Bond issuance

All government expenditure requirements met

No overdraft facility use

HIGH CASH LIQUIDITY MAINTAINED

$96.3b
maximum

$56.8b
average

$30.1b
minimum

SUPPORT TO SME LENDERS

5 investments
held by ABSF

COVID-19 SUPPORT OF NON-BANK LENDERS

4 warehouse facilities
exited by SFSF

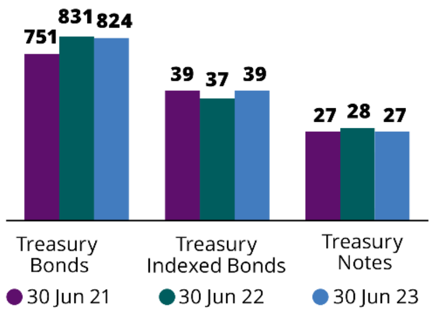
COVID-19 FORBEARANCE SUPPORT

4 non-bank originators
supported by fSPV

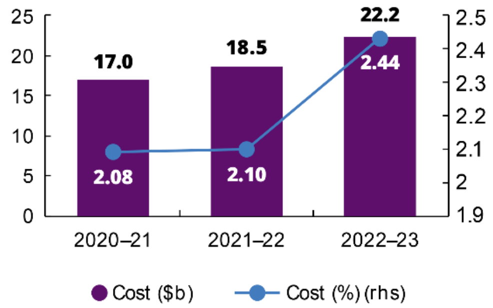
PORTFOLIO AT A GLANCE

AUSTRALIAN GOVERNMENT SECURITIES

FV Outstanding ($b)

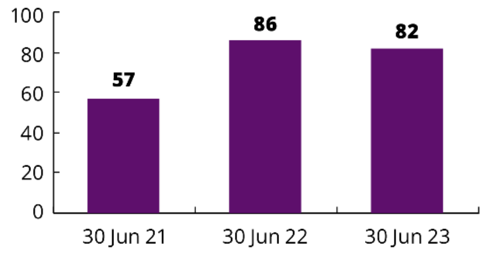


Debt Servicing Costs

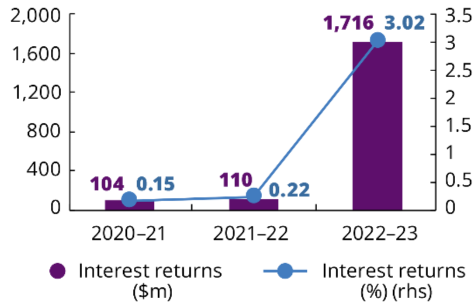


CASH

Cash Balances ($b)

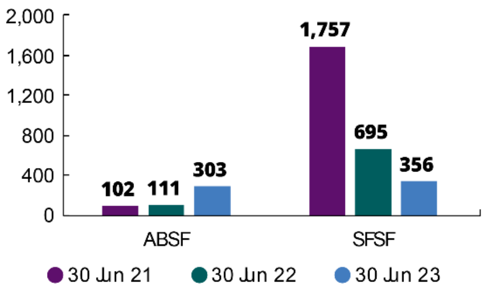


Interest Returns

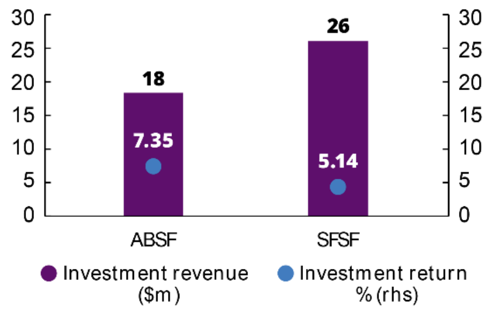


ABSF & SFSF INVESTMENTS

Investment Balances ($m)



2022–23 Investment Revenue



PART 1: OVERVIEW

A. CHIEF EXECUTIVE OFFICER'S REVIEW

Before I highlight the AOFM's achievements for the year, I would like to acknowledge the significant contibutions of my predecessor, Rob Nicholl. During his 11-year tenure, the AOFM sucessfully extended the yield curve to 30 years, upgraded our market communications, and oversaw a significant increase in issuance to support the Australian Government's COVID-19 pandemic response. We thank Rob and wish him every success in his new role as Australia's representative to the International Monetary Fund (IMF).

In 2022–23, we experienced similar challenges to previous years, including calibrating the borrowing program to balance consistency in issuance, with Budget revenue strength experienced throughout the year. Some market volatility in early 2023 provided our Funding and Liquidity team with additional challenges, who met these with their usual aplomb.

The AOFM Advisory Board which provides advice to the Secretary of the Treasury, was re-established in 2023. While the Board's secretariat is provided by the Treasury, the Board commended our Portfolio Strategy and Research team, who are responsible for development of the Debt and Liquidity Strategies, for the quality of the papers they provided.

The Structured Finance and Strategy team continued to roll out the Australian Business Securitisation Fund (ABSF). A key component of this has been to contribute to the development, and encourage the adoption, of an industry-led data reporting standard. The Australian Securitisation Forum (ASF) has publicly thanked us for our efforts on the Small to Medium Enterprise (SME) data template.

In May, the AOFM held its fifth Australian Government Fixed Income Forum in Tokyo. Speakers included the Secretary of the Treasury, the Reserve Bank of Australia (RBA) Head of Domestic Markets, a Managing Director from the Japanese Government Pension Investment Fund, and the CEO of the ASF. The Forum's focus was Environmental, Social, and Governance (ESG) matters, with both the semi-government and ESG investor panels well received by over 100 attendees from around 60 different institutions.

During 2022–23, the AOFM introduced a Data Strategy to improve the efficacy of capturing and using data and enhancing data analysis. For example, as part of our effort to enhance skills, we have established a business intelligence community (BizTell) where staff share experiences, demonstrate their skills, and learn about the AOFM's data architecture.

The AOFM's approach to risk and assurance continues to mature as highlighted by our results for the Comcover Risk Management Benchmarking Program. Participation in this benchmarking survey is mandatory for all 160 Comcover fund members. The report provides a comparison of the AOFM's risk management capabilities against other Commonwealth entities in 2023, and measures improvement since 2021. The AOFM is continuing to achieve strong results and the survey found a notable increase in all areas of focus. In addition to meeting our key performance indicators, the AOFM contributed to additional projects including a mission to Timor-Leste and the O'Donnell litigation case.

Through a request made to the Minister of Foreign Affairs, Senator the Hon Penny Wong, on 31 August 2022, the Timor-Leste Government sought assistance from the AOFM to help the Ministry of Finance establish a government bond market. Over a week in late February and early March 2023, AOFM officials visited Dili to explore issues pertinent to the establishment of a government bond market in Timor-Leste, through a comprehensive schedule of interviews arranged by the Directorate-General for Treasury. We subsequently prepared a well-received report offering a range of observations and actions to support the Government of Timor-Leste in making an informed decision about establishing a bond market. This was delivered to the Department of Foreign Affairs and Trade (DFAT) in May 2023.

Annually the Secretary's Awards recognise exceptional performance, outstanding achievement and exemplary behaviour of individuals and teams. In 2023, the Secretary of the Treasury presented a Collaboration Award to several teams across the department to recognise their significant contribution resulting in the successful management and response to the O'Donnell litigation discovery process. Two of the AOFM's staff members, Brad Parry and Pat Raccosta, were recipients.

While 2022–23 was successful for the AOFM, we anticipate that the year ahead for issuance will be set against an uncertain backdrop of market conditions, albeit with improving Budget forecasts. Just as we saw at the beginning of 2023, surprises can appear from nowhere. The AOFM needs to stay focused on the fundamentals of transparency and predictability. Importantly, we will also be developing a new issuance product, Australia's first Green Bond. While undertaking new activities can be daunting, I have no doubt that the team will draw on its extensive expertise to successfully deliver this bond and I look forward to reporting on its progress in next year's report.

B. ROLE AND ACTIVITIES

The AOFM manages debt financing, the cash portfolio, and investment programs for the Australian Government.

We are the government's sovereign debt manager, responsible for issuing and managing the government's debt and cash balances.

The AOFM borrows in wholesale funding markets by issuing Australian Government Securities (AGS). It has two main responsibilities; one is to ensure the government can always meet its financial obligations (otherwise known as 'cash management') and the other is to manage the government's debt portfolio by prudently balancing risks and costs over time (otherwise known as 'debt management').

We are aware of our potential to impact sectors of capital markets through our actions as an issuer of government debt, and as an investor on behalf of the government – specifically in the Australian securitisation market.

The AOFM's core responsibilities were unchanged during 2022–23: funding the government's expenditure needs, raising debt from financial markets, supporting the functioning of Australia's sovereign debt market, and fulfilling the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF) mandates.

Our own operations are funded by Australian Government budget appropriations.

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 purposes

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 ABSF and SFSF.

The AOFM outcome

The AOFM has one outcome in the Treasury Portfolio Budget Statement (PBS): the advancement of macroeconomic growth and stability, and the effective operation of financial markets through issuing debt, investing in financial assets, and managing debt, investments, and cash for the Australian Government.

The AOFM's role in financing the Budget

The Australian Government Budget is usually released in May each year for the financial year commencing on 1 July and 3 forward years. The Budget sets out the government's fiscal outlook and budget position, reflecting government policy decisions and assumptions about the performance of the domestic and global economies. The Budget for the 2022–23 financial year was released in March 2022 and a secondary Budget was released in October 2022, reflecting the change in government.

During the Budget process, the AOFM is given an estimate of the annual financing task for the Budget year and forward years. The annual financing task for the Budget year together with an (AOFM-formulated) annual debt management strategy is central to determining the size and nature of the annual issuance program.

Typically, in December each year the government publishes a Budget update, the Mid-Year Economic and Fiscal Outlook (MYEFO). At this point, the AOFM updates its issuance program for the Budget year.

The AOFM's debt management strategy

As part of the Budget process, the AOFM establishes a debt management strategy for the Budget year. This sets out how we plan to achieve the financing task after taking into account market conditions, investor demand, costs, and risks. AGS issuance and trading play a key role in the domestic financial market. These bonds are a flight to safety asset in times of uncertainty, are used as collateral for certain financial market transactions, provide a pricing benchmark for other financial products, and offer the Reserve Bank of Australia (RBA) a means to effect monetary policy. Accordingly, our debt management strategy also seeks to foster an efficient and liquid secondary market in AGS.

Issuance is by tenders and syndications

The bulk of annual issuance is via **tender** through market makers (banks that are ‘registered bidders’ with the AOFM). Registered bidders can buy AGS directly from the AOFM through regular tenders (on average several times per week) and intermediate trading by holding inventories to meet investor needs to buy and sell AGS. The cost of borrowing is driven by the interest rates demanded by intermediaries at each tender. The AOFM is a price-taker due to market forces.

Domestic and international investors

Central banks, investment banks, pension funds, hedge funds, insurance companies and private investors

In circumstances where a high-volume transaction is required and the AOFM judges’ execution risk to be elevated, we will issue via a **syndication**. In a syndication, the AOFM appoints a panel of banks to support and promote the transaction through their customer networks. The bonds are placed directly into the hands of investors.

Registered bidders

Market makers in the AGS market approved by the AOFM to bid at tenders.

C. ORGANISATIONAL STRUCTURE

The AOFM's organisational structure is based on financial industry best practice, including developing our teams to align with different stages of our business processes. It gives specific recognition to financial transaction-related duties. Core operational activities form 3 broad areas.

Front office

This comprises strategy, markets, and funding. Activities involve portfolio and global market research; investor engagement; and liaison with Treasury on debt policy and related financial market issues. The front office conducts tenders and syndications for the issue of AGS and manages and executes investment programs for the ABSF and SFSF. It also leads the cash management task.

Middle office

This comprises activities to support enterprise risk management (ERM), second line risk assurance monitoring, portfolio performance measurement, data management, and business systems management. Risk and compliance monitoring facilitates the AOFM's management of risk, including adherence to the separation of back and front office functions. The middle office maintains business databases that facilitate monitoring and reporting of our business activities.

Back office

The back office is responsible for accounting, budgeting, and financial management services. It manages debt financing and investment transaction settlements, ensures debt payment obligations are met in all instances, manages procurement and vendor risk and outsourced debt registry services.

Agency administrative support, executive support for the Chief Executive Officer (CEO), communications, and human resources are managed by the Office of the CEO. These functions sit outside the 3 offices described above.


CHIEF EXECUTIVE OFFICER
Business Support
Human Resources
Communications
Front office
Funding, markets and strategy
Middle office
Enterprise risk, assurance and performance
Back office
Financial management services

PART 2: PERFORMANCE STATEMENT

A. STATEMENT OF PREPARATION

As the accountable authority of the Australian Office of Financial Management (AOFM), I present the 2022–23 annual performance statement of the AOFM, as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, the annual performance statement is based on properly maintained records, accurately reflects the performance of the agency, and complies with subsection 39(2) of the PGPA Act.

Anna Hughes
Chief Executive Officer

30 August 2023

B. FINANCIAL RISK MANAGEMENT

Sovereign debt management requires managing a range of risks and other considerations

Sovereign debt issuance and cash management entails assessing interest rate, liquidity, forecasting and operational risks. Given the size of the government's financial operations, these risks are material to its overall fiscal position and balancing them requires carefully informed judgement. These risks are influenced by a range of factors, primarily global market forces that are subject to constant change.

The AOFM's risk management framework supports decisions about engagement with, and the mitigation of, risk. It also underpins our risk aware culture.

An efficient sovereign debt market improves the resilience of the financial system to economic and financial market shocks. Through our debt financing activities, the AOFM also supports the domestic financial system in which the issuance and trading of Australian Government Securities (AGS) plays a central role. The AGS market provides key reference points for pricing other capital market instruments and is used by market participants to manage interest rate risk.

The AOFM issues Treasury Bonds, Treasury Indexed Bonds and Treasury Notes

The AOFM issues 3 AGS debt instruments.

- **Treasury Bonds** are the primary instrument to meet the Budget funding task.
- **Treasury Indexed Bonds (TIBs)** support the Australian inflation-linked market and diversify the AGS investor base.
- **Treasury Notes (T-Notes)** are short-term debt securities used for within-year financing purposes and to provide ready access to large volumes of financing in times of unanticipated government need. This can be especially important during general market stress.

What are the characteristics of securities issued by the AOFM?

Treasury Bonds are interest bearing securities with maturities ranging to around 30 years. A fixed interest payment (coupon) is made twice each year for the life of the bond. At maturity, holders receive the bond's face value.

TIBs have maturities ranging to around 30 years. The face value of TIBs is adjusted for changes to the Consumer Price Index (CPI). Interest is paid quarterly, at a fixed rate, on the bond's inflation adjusted value. At maturity, the holders receive the inflation adjusted value of the security.

T-Notes are instruments with maturities typically ranging from one to 6 months. They are purchased at a discount to the face value and are redeemed at face value on maturity, so the investor return is equal to the face value discount at purchase.

The AOFM separates its assets and liabilities into portfolios

For risk management and reporting purposes, AOFM-managed assets and liabilities are split into multiple portfolios. Long-term financing is managed through the Long-Term Debt Portfolio (LTDP) and short-term debt through the Cash Management Portfolio (CMP). Assets managed by the AOFM for policy purposes including the ABSF, the SFSF, and housing advances loans to state and territory governments are held in separate portfolios specific to each of those activities.

The LTDP comprises Treasury Bonds and TIBs

The AOFM influences the cost and risk profile of the LTDP through the maturity structure of bonds issued and, to a lesser extent, the mix between nominal and inflation-linked bonds.

Striking the balance between cost and risk considerations, while not having an adverse impact on market functioning, requires judgement. Issuing longer-term bonds typically involves higher debt servicing costs but this is compensated by reduced exposure to future interest cost outcomes and to annual refinancing risk over time[1]. Shorter-term borrowing will typically incur lower cost but can expose the government to higher variability in interest rate outcomes over time, and will lead to higher annual debt refinancing requirements – this entails a higher overall annual issuance task because gross issuance comprises the Budget deficit, plus refinancing requirements.

Developing a medium-to-long term view on appropriate portfolio management, and translating it into annual issuance strategies, is informed by research and close monitoring of financial market conditions. The research explores the cost and risk characteristics of alternative portfolio structures and issuance strategies under a range of scenarios.

The CMP comprises T-Notes and deposits with the Reserve Bank of Australia (RBA)

The CMP is primarily used to manage within-year timing mismatches between government receipts (mainly taxation) and expenditures. It is a fluctuating portfolio of short-term investments (deposits with the RBA) and short-term liabilities (T-Notes). The AOFM manages the portfolio to achieve an appropriate balance between cost, refinancing risk, and liquidity risk.

Assets managed for policy purposes

In November 2018, the government announced plans to establish the ABSF to promote the development of and increase competition within the SME lending market. The ABSF aims to improve access to securitisation funding for smaller lenders that provide credit to the SME sector. Enabling legislation was enacted in April 2019.

In March 2020, the Australian Parliament passed a series of economic response measures to support the Australian economy through the COVID-19 pandemic. The *Structured Finance Support (Coronavirus Economic Response Package) Act 2020* (SFS Act) established the $15 billion SFSF to support the wholesale structured finance market, which was disrupted by the economic uncertainty arising from the pandemic. The Act aimed to ensure smaller lenders continued to have access to wholesale funding markets, in turn supporting the ongoing flow of lending to households and small business.

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1 Refinancing risk, also referred to as rollover risk or re-pricing risk, is the risk that borrowing to replace maturing debt occurs on unfavourable terms (or is not possible at all)

The primary cost measure used is accrual debt servicing cost

The AOFM cost and risk measures reflect considerations faced by all sovereign debt managers. The primary cost measure is accrual debt servicing cost. This measure includes interest payments made on AGS, realised market value gains and losses on repurchases, capital indexation of TIBs, and amortisation of issuance premia and discounts. Accrual debt servicing cost excludes unrealised market value gains and losses. The effective yield of the portfolio is the total accrual debt servicing cost expressed as a percentage of total debt outstanding.

Fair value measures of cost (which take account of unrealised gains and losses) are less relevant because we only consider the repurchase of outstanding bonds when they are close to maturity – a point at which their prices are not very sensitive to changes in interest rates.

How is interest cost for AGS determined?

The interest cost on AGS is set by the market, through bids by financial market intermediaries at competitive tenders run by the AOFM. We are a price taker through these tenders. The interest rates bid by intermediaries depend on the maturity and coupon rate of the specific security being issued and prevailing market conditions.

For Treasury Bonds and T-Notes, the full life interest cost is locked in at the time of each issue. For TIBs, the interest cost depends on changes to the CPI over the life of the bond, so the full life interest cost is not known at the time the bond is issued.

C. APPROACH TO ASSESSING PERFORMANCE

Progress towards meeting performance targets is monitored by the AOFM Executive Leadership Group

The AOFM's annual performance planning cycle commences with the Corporate Plan. Preparation includes a review of the AOFM's purposes, key activities, and performance measures. The AOFM Executive Leadership Group (ELG) monitors performance measures on a quarterly basis, and reports progress to the AOFM Audit and Risk Committee. The AOFM's 2022–23 Corporate Plan is available on our website.

Our purposes are linked to key activities which, in turn, are mapped to measures of performance. Overall agency performance is assessed through performance outcomes as reported below.

Table 1 shows the AOFM's performance measures and associated targets. They are set out against an overarching purpose. Performance outcomes are reported in the following sections.

Table 1: Performance measures and targets

Performance measures				Target
PURPOSE 1		**Meet the government's annual financing task while managing the trade-offs between costs and risks**		
1.1	Establish a debt management strategy	1.1.1	**Annual debt management strategy:** formulate an annual debt management strategy and advise the Secretary to the Treasury with supporting analysis.	Prior to start of fiscal year
1.2	Execute the debt issuance program	1.2.1	**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.	Zero
		1.2.2	**New issuance yields:** the weighted average issuance yield at Treasury Bond and Treasury Indexed Bond tenders compared to prevailing mid-market secondary yields.	At or below mid-market yields
		1.2.3	**Tender coverage ratio:** the average tender coverage ratio across all tenders for the fiscal year.	Greater than 2.5 times
1.3	Settle transactions and coupon and redemption payments	1.3.1	**Settlement of AGS transactions**: the number of times AGS transactions fail to settle in a complete, timely and accurate manner where the AOFM is responsible for the failure.	Zero
		1.3.2	**Settlement of AGS coupons and redemptions:** the 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.	Zero
1.4	Monitor costs and risks of the portfolio of assets and liabilities	1.4.1	**Financing cost – issuance:** the cost of Treasury Bond issuance in percentage terms over the past 12 months compared to the average 10-year Treasury Bond rate over the same period.	Lower

Performance measures				Target
PURPOSE 2		**Ensure the government can always meet its cash outlay requirements**		
2.1	Establish a liquidity management strategy	2.1.1	**Annual liquidity management strategy**: formulate an annual liquidity management strategy and advise the Secretary to the Treasury with supporting analysis.	Prior to start of fiscal year
2.2	Conduct the cash management task	2.2.1	**Use of overdraft facility**: the number of instances the RBA overdraft facility was utilised.	Zero
PURPOSE 3		**Conduct market facing activities in a manner that supports a well-functioning AGS market**		
3.1	Communicate AOFM operations clearly and consistently to the market	3.1.1	**Market commitments**: the number of times the AOFM failed to conduct issuance operations consistent with prior market announcements.	Zero
3.2	Conduct a market engagement program	3.2.1	**Investor publications**: the number of times investor targeted information publications are updated and made available on the AOFM website.	At least twice a year
3.3	Support financial market liquidity	3.3.1	**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.	Greater than previous fiscal year
PURPOSE 4		**Meet the priorities of the ABSF and the SFSF**		
4.1	Manage the ABSF program	4.1.1	**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.	Greater than Bloomberg AusBond Treasury 0-1 year index
4.2	Manage the SFSF program	4.2.1	**SFSF losses**: gross credit losses for a fiscal year divided by the average drawn (invested) amount in percentage point terms.	Zero

Result definitions for performance measures are as follows:

Met	The AOFM delivered against the performance measure.
Partially met	The AOFM partially achieved its aims against the performance measure.
Not met	The performance measure was not met.

D. THE OPERATING ENVIRONMENT

As the budget moved toward surplus, the financing task fell.

At the start of the financial year the RBA had only just begun to tighten monetary policy. The official cash rate had moved from 0.10% to 0.85% with market commentators predicting a terminal rate of around 2.5–3.0%. Inflation, while running well above target, was thought to be mainly a product of supply chain disruptions due to both the economic reopening following the COVID-19 pandemic and from the war in Ukraine. As the year progressed, the market narrative changed considerably.

The RBA's preferred inflation measure moved from 5.0% in June 2022 to a high of 6.9% in December 2022, significantly more than the 2.0–3.0% target band. Over this same period the unemployment rate fell to a historic low of 3.4% in October 2022 and stayed around this level into the end of the financial year. High and persistent inflation coupled with a robust labour market meant that the RBA continued to hike rates aggressively taking the cash rate to 4.1% by June 2023.

The US experienced a mini-banking crisis in March 2023 with 3 regional US banks failing and resulting in banking sector stocks being aggressively sold (with losses exceeding those seen during the 2008 GFC). At the height of this "panic" the market repriced yields and risk assets dramatically lower. However, there was very little economic fallout in subsequent reported economic data, and so the markets quickly reverted.

Despite the broader volatility in markets over the year, trading conditions in the Treasury Bond market remained normal with strong liquidity and broadly based investor participation. This allowed the AOFM to conduct two successful bond syndications during the year and saw weekly bond tenders well subscribed.

The underlying strength in the economy benefitted the Budget position and materially reduced our financing task. Having initially announced a Treasury Bond program of $125 billion for 2022–23 (at Budget time in March 2022), the AOFM finished the year having issued $78.8 billion.

PERFORMANCE ASSESSMENT: PURPOSE 1

Meet the government's annual financing task while managing the trade-offs between costs and risks

How Purpose 1 is achieved

The financing task is achieved through issuance of AGS. Issuance is informed by an annual debt management strategy which looks to balance portfolio risks and borrowing costs.

Debt management considerations include interest cost and interest cost variability over time, changes to investor demand, financial market conditions, the size of the financing task and funding risk. Strategic issuance decisions require making judgements to trade off costs and risks.

Many debt management risks are not within the control of the AOFM but are a product of market influences or events. Furthermore, debt management decisions and fiscal outcomes in one period have flow-on effects in future periods, including on interest costs, annual financing and refinancing needs and overall debt levels. We must also ensure our issuance behaviours do not adversely impact domestic financial market integrity, stability, and liquidity.

Effective debt management often requires a longer-term perspective on decision making, although smooth operational outcomes require short-term decision making that takes account of prevailing market conditions.

The volume and mix of AGS issuance are adjusted in response to changing circumstances, such as unforeseen changes in funding requirements. The method of issuance is determined by balancing considerations of supporting AGS market liquidity, managing execution risk and anticipated transaction costs. The majority of issuance occurs through competitive tender. Syndication is reserved for situations in which execution risk is high due to large issuance volume or the need to establish new bond lines.

Table 2: Summary of performance for Purpose 1

Performance measures		2022–23 Performance	
		Target	Results
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.		
1.1.1	**Annual debt management strategy:** formulate an annual debt management strategy and advise the Secretary to the Treasury with supporting analysis.	Prior to start of fiscal year	Met
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.		
1.2.1	**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.	Zero	Partially met
1.2.2	**New issuance yields:** the weighted average issuance yield at Treasury Bond and Treasury Indexed Bond tenders compared to prevailing mid-market secondary yields.	At or below mid-market yields	Met
1.2.3	**Tender coverage ratio:** the average tender coverage ratio across all tenders for the fiscal year.	Greater than 2.5 times	Met

Performance measures		2022–23 Performance	
		Target	Results
Key Activity 1.3	**Settle transactions and coupon and redemption payments:** • in a complete, timely and accurate manner.		
1.3.1	**Settlement of AGS transactions:** the number of times AGS transactions fail to settle in a complete, timely and accurate manner where the AOFM is responsible for the failure.	Zero	Met
1.3.2	**Settlement of AGS coupons and redemptions:** the 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.	Zero	Met
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.		
1.4.1	**Financing cost – issuance:** the cost of Treasury Bond issuance in percentage terms over the past 12 months compared to the average 10-year Treasury Bond rate over the same period.	Lower	Not met

Key Activity 1.1: Establish a debt management strategy

An annual debt management strategy sets out the parameters for the AOFM's borrowing activities. This includes the weighted average maturity of issuance and the mix of funding instruments to be used. The Secretary to the Treasury is briefed on and endorses the strategy each year.

The 2022–23 debt management strategy was formulated in an environment of rising interest rates amid high rates of inflation spurred by the conflict in Ukraine and a strong post-COVID-19 recovery in demand.

At the time the strategy was set, the large size of the projected funding task, a flat yield curve, and the growing volume of outstanding debt informed a long-dated bias to the Weighted Average Maturity (WAM) of issuance.

Performance for Key Activity 1.1

Indicator 1.1.1 Annual debt management strategy

> The target to formulate and advise the Secretary to the Treasury of the annual debt management strategy prior to the beginning of the fiscal year was met.

The Secretary to the Treasury was briefed on the 2022–23 debt management strategy in June 2022.

Key Activity 1.2: Execute the debt issuance program

The AOFM's issuance is via competitive tenders and occasionally by syndication. In making weekly issuance decisions, we take account of the debt management strategy, funding and cash requirements, prevailing market conditions, liaison with financial market contacts, relative cost between different bond lines and the volume currently outstanding in bond lines. Strong tender demand is indicated by high coverage ratios combined with bids at or below the mid-market yield.

Treasury Bonds

> Treasury Bonds are the primary instrument of the AOFM's debt issuance program.

Treasury Bond issuance for the year totalled $78.8 billion, of which $50.8 billion was issued by tender and $28 billion by syndication. Net issuance was negative $6.7 billion, compared with $79.6 billion the previous year. 2022–23 issuance represented a decrease from the $96 billion issued in 2021–22 as the Budget position improved. Two new bond lines were issued during the year; one maturing in May 2034, and the other in December 2034, both established by syndication. Around 43% of total Treasury Bond issuance for the year was into these two new bond lines.

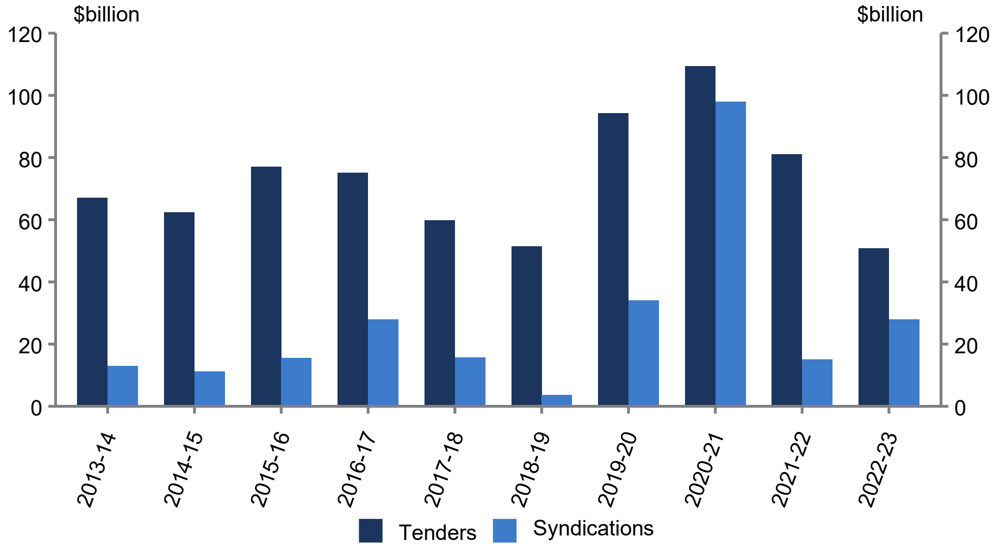
Syndications in 2022–23

In a syndication, the AOFM appoints a panel of banks to manage the investor facing process on its behalf and to promote take-up of the syndication offer through the panel's client networks. We set the pricing according to market indicators, the total volume to be issued according to our financing needs and the composition of bids received, and how it is allocated to different types of investors.

Syndications are advantageous when seeking to issue a higher volume of debt than could be achieved through a single tender and when establishing new bond lines. They are used primarily to manage execution risk.

During 2022–23, the AOFM paid $24.6 million (including GST) to conduct 2 syndications of Treasury Bonds. From the two syndications the AOFM raised more than $27.4 billion in proceeds. All syndication contracts are reported in AusTender.

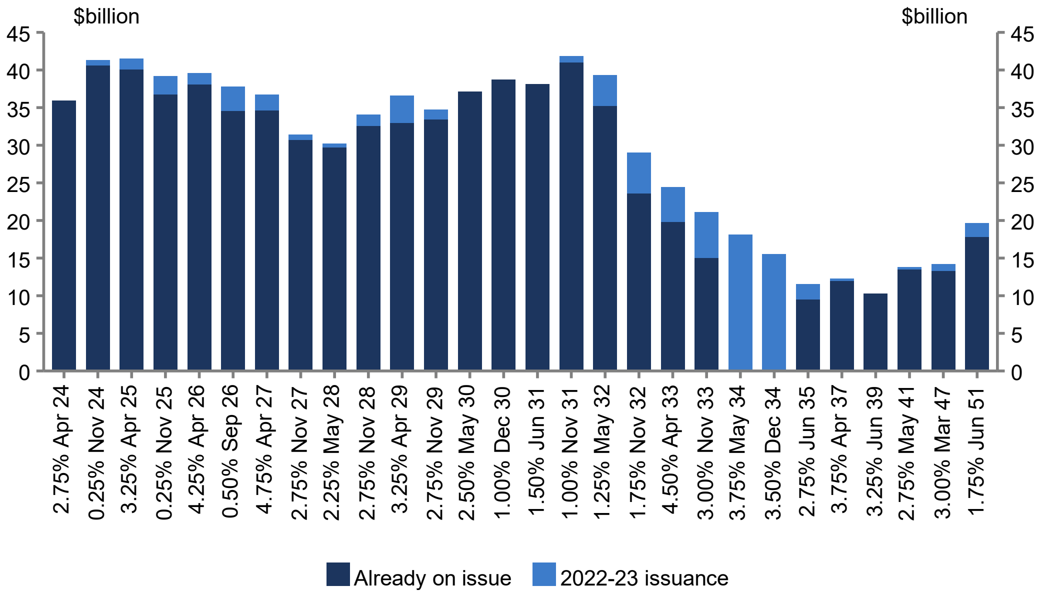
Chart 1: Treasury Bonds – issuance by financial year



During 2022–23, one to two Treasury Bond tenders were held most weeks. Issuance via tender continued to be concentrated into maturities that form the 10-year Treasury Bond futures contracts. These bond lines are consistently the most liquid part of the AGS market and therefore are best able to absorb large issuance volumes, both at a point in time and over the year.

There were 28 Treasury Bond lines on issue at the end of 2022–23, 3 with more than $40 billion on issue and a further 14 with more than $30 billion on issue. Chart 2 shows Treasury Bonds outstanding as at 30 June 2023 and the allocation of issuance across bond lines during 2022–23.

Chart 2: Treasury Bonds outstanding at 30 June 2023



Treasury Indexed Bonds (TIBs)

The AOFM issues sufficient TIBs to meet demand, and to support the liquidity and functioning of the market.

TIB issuance for the year totalled $2.2 billion (Chart 3). Two tenders were held in most months.

Chart 3: Treasury Indexed Bonds – issuance by financial year

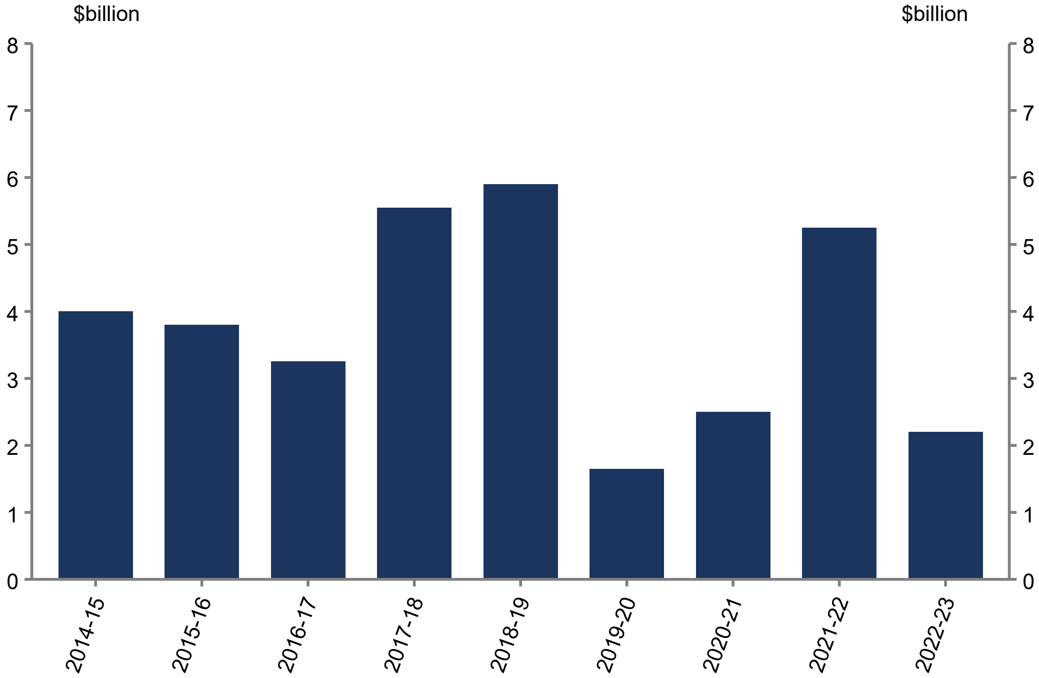
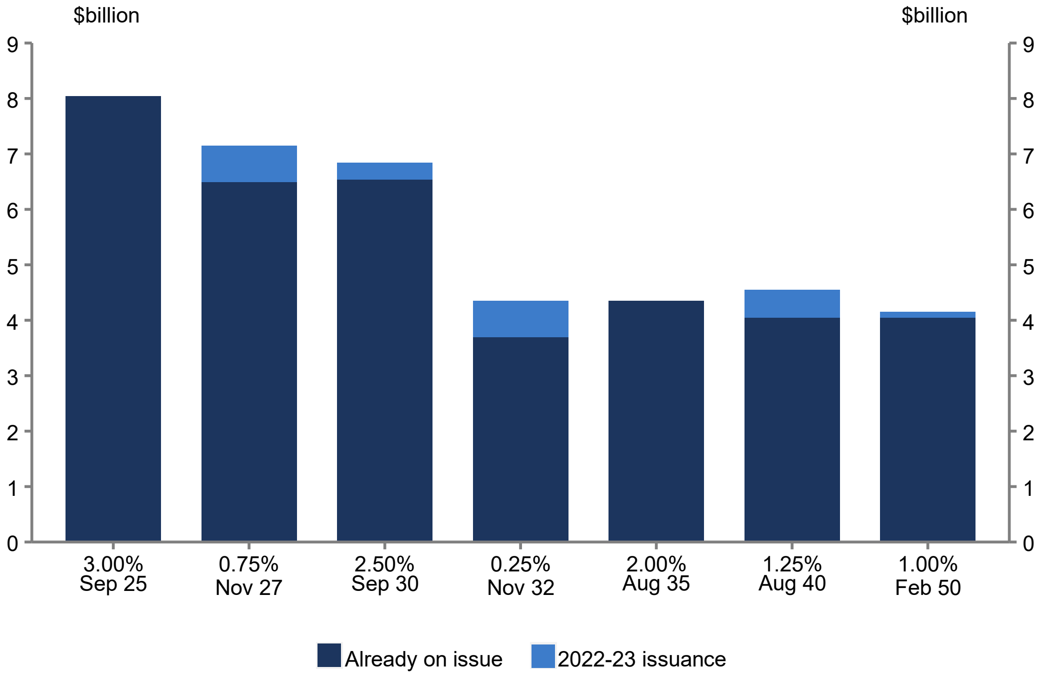


Chart 4 shows the amount outstanding in each of the 7 TIB lines at 30 June 2023 and the allocation of issuance during the 2022–23 year.

Chart 4: Treasury Indexed Bonds outstanding at 30 June 2023 and issuance during 2022–23



TIBs comprise around 5% of the LTDP in face value terms and attract predominantly domestic investors.

Performance for Key Activity 1.2

Indicator 1.2.1 Term issuance

A zero target for the difference between the actual Treasury Bond volume issued and that announced at the most recent Budget update was partially met.

The term issuance indicator is used to measure the extent to which the AOFM has achieved its planned issuance program for bonds. While the target is set at zero, over-issuance or under-issuance by relatively small amounts can be accommodated through adjustment to the program for the following year.

There was a small difference between actual issuance and guidance announced at the 2022–23 Budget and updated at subsequent official releases. In 2022–23, the AOFM issued $78.8 billion of Treasury Bonds compared to initial guidance of around $125 billion when the 2022–23 Budget was announced. This guidance was revised down to around $95 billion at the 2022–23 October Budget and further reduced to around $80 billion at the 2023–24 Budget in May. These updates were in line with downward revisions to the financing task.

Actual Treasury Bond issuance in 2022–23 was $78.8 billion, just over $1 billion less than final $80 billion guidance given at the 2023–24 Budget. The budget surplus increased by considerably more than this. As a result, the AOFM's holdings of cash assets at year-end were higher than forecast.

Indicator 1.2.2 New issuance yields

The target for new issuance yields to be at or below prevailing secondary mid-market yields was met.

Average tender yields for 2022–23 were below secondary mid-market yields for Treasury Bonds by 1.2 basis points (bps) and TIBs (by 1.6 bps). This compares with 0.7 bps and 1.5 bps respectively in 2021–22.

Treasury Bonds

Treasury Bond tenders were competitive in 2022–23.

Table 3 summarises results of Treasury Bond tenders conducted during the year. These are averages grouped by maturity.

The strength of bidding at tenders was reflected in issue yields for bonds issued at tender relative to secondary market yields. At most Treasury Bond tenders, the weighted average issue yields were below prevailing secondary market yields – in other words, a favourable price outcome relative to mid-market pricing.

Table 3: Summary of Treasury Bond tender results

Maturity (years)	Face value amount allocated ($million)	Average spread to secondary market yield (bps)	Average times covered
0–2	-	n/a	n/a
2–5	11,300	-1.90	4.22
5–9	7,600	-1.43	3.44
9–12	26,600	-0.90	3.11
12+	5,300	-0.78	2.66
Total/Average	**50,800**	**-1.20**	**3.35**

Treasury Indexed Bonds

TIB tenders were competitive during 2022–23.

Table 4 summarises results of TIB tenders conducted during the year.

The weighted average issue yield was more than one basis point less than prevailing secondary market yields.

Table 4: Summary of Treasury Indexed Bond tender results

Maturity (years)	Face value amount allocated ($million)	Average spread to secondary market yield (bps)	Average times covered
0–5	650	-1.80	4.25
5–10	550	-0.92	2.83
10–20	900	-2.24	2.89
20+	100	1.46	1.51
Total/Average	**2,200**	**-1.60**	**3.24**

Indicator 1.2.3 Tender coverage ratio

The target for the average tender coverage ratio to be above 2.5 was met.

AGS tenders were well-covered throughout the year. The average tender coverage ratio for all tenders in 2022–23 was 4.5.

Treasury Bonds

If the AOFM monitors market conditions and appropriately assesses feedback from traders before announcing weekly issuance, bond tenders should give rise to competitive outcomes. This in turn reduces execution risk and the cost of issuance. The average tender coverage ratio for Treasury Bond tenders in 2022–23 was 3.35 (refer to Table 3 above), down from 4 in 2021–22. The average tender size of $677 million in 2022–23 was smaller than the $910 million in 2021–22.

Shorter-dated bond tenders generally received higher coverage ratios. This reflected core investor demand and intermediaries' greater willingness and ability to warehouse the risk associated with shorter-dated bonds.

Treasury Indexed Bonds (TIBs)

Tender coverage ratios were 3.24 (refer to Table 4 above) in 2022–23 slightly lower than compared with 3.67 in 2021–22. On average the AOFM issued $129 million on tender days, compared with $125 million in 2021–22.

Treasury Notes (T-Notes)

T-Note issuance attracted strong demand throughout the year. The average coverage ratio at tenders was around 5, similar to the level achieved in 2021–22. Yields were on average 3.5 bps lower than overnight indexed swap (OIS) rates for corresponding tenors[2] (compared with around 2 bps lower than OIS rates in 2021–22).

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2 The AOFM uses interpolated OIS rates at the time of the tender. Judgement may be applied.

Table 5: Summary of Treasury Note tender results

Maturity (months)	Face value amount allocated ($m)	Average spread to OIS (basis points)	Average times covered
0–3	23,500	-4.94	5.87
3–6	71,500	-3.11	4.86
6+	1,500	-1.57	3.77
Total/Average	**96,500**	**-3.47**	**5.09**

Key Activity 1.3: Settle transactions and coupon and redemption payments

Austraclear, a licensed clearing and settlement facility under the *Corporations Act 2001 (Cth)*, is an electronic securities depository system for Australian dollar denominated debt securities and is central to the settlement of AGS transactions. It is important that transactions settle on time.

In the settlement of AGS transactions, a delivery versus payment function is utilised within Austraclear. Delivery versus payment involves simultaneous gross settlement of securities with real time gross settlement of cash. The exchange of securities and cash only occurs when funds are available within the purchaser's Austraclear account and securities are available in the seller's Austraclear account. If we buy securities back from the market, cash is delivered to successful counterparties in return for delivery of securities. AGS bought back from the market are cancelled.

For AGS held in Austraclear – which comprises the vast majority of AGS on issue – coupon and redemption payments are made by the AOFM to the owners of those securities through Austraclear. Computershare, as the AOFM's debt registrar, is responsible for facilitating payments to the owners of securities held outside Austraclear.

Performance for Key Activity 1.3

Indicator 1.3.1 Settlement of AGS transactions

The target for settlement of AGS transactions was met.

All tender and syndication issuance during 2022–23 was successfully settled in a complete, timely and accurate manner.

In 2022–23, the AOFM settled:

- 75 Treasury Bond tenders, totalling $47.8 billion
- 2 Treasury Bond syndications, totalling $27.5 billion
- 18 TIB tenders, totalling $2.5 billion
- 118 T-Note tenders, totalling $98.1 billion.

Indicator 1.3.2 Settlement of AGS coupons and redemptions

The target for settlement of AGS coupons and redemptions was met.

It is critical for the AOFM to ensure the Australian Government is at all times assessed in financial markets as behaving in a manner fully consistent with its AAA sovereign credit rating. This means all financial (repayment) obligations are always met. All AGS coupon and redemption payments for Austraclear held and non-Austraclear held securities were successfully settled in a complete, timely and accurate manner in 2022–23.

In 2022–23, the AOFM made:

- 58 Treasury Bond coupon payments, totalling $21.2 billion
- 3 Treasury Bond redemption payments, totalling $85.5 billion
- 28 TIB coupon payments, totalling $839 million
- 21 T-Note redemption payments, totalling $97.5 billion

Key Activity 1.4: Monitor costs and risks of the portfolio of assets and liabilities

Refer to Appendix 1 for details of the cost and return outcomes for the portfolio of debt and assets administered by the AOFM. Results are broken down by instrument and portfolio for 2021–22 and 2022–23.

The Long-Term Debt Portfolio (LTDP)

The effective yield of the LTDP was 2.43% for 2022–23, 25 bps higher than 2021–22. Total debt servicing costs increased by $2.9 billion, which was attributable to the higher volume of bonds on issue, higher yields on new issuance and higher costs on TIBs.

The average volume of bonds on issue increased by $30.4 billion, which contributed to higher debt servicing costs for the portfolio. Higher inflation continued to increase debt servicing costs on TIBs.

Table 6: Debt servicing costs: Long-Term Debt Portfolio

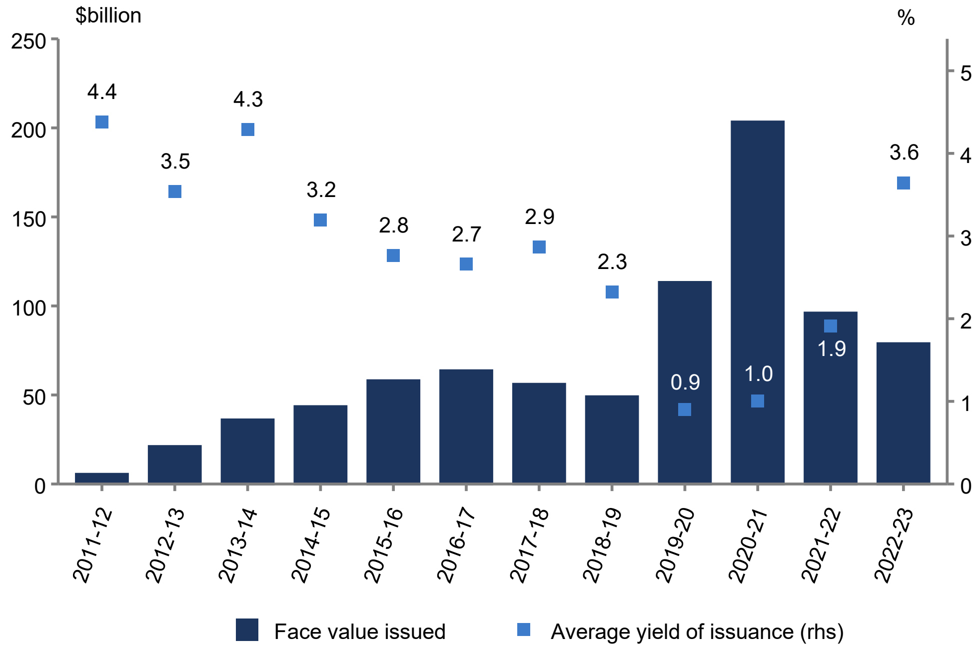
	Debt servicing cost		Book volume		Effective yield	
	2022–23	2021–22	2022–23	2021–22	2022–23	2021–22
	$ million		$ million		% per annum	
Contribution by instrument						
Treasury Bonds	(17,314)	(16,314)	(832,445)	(803,207)	2.08	2.03
Treasury Indexed Bonds	(4,081)	(2,200)	(48,727)	(47,557)	8.38	4.63
Total	**(21,395)**	**(18,514)**	**(881,172)**	**(850,764)**	**2.43**	**2.18**
Represented by						
Interest costs	(21,395)	(18,480)	(881,172)	(850,764)	2.43	2.18
Costs of repurchases	-	(34)	(881,172)	(850,764)	-	0.00
Total	**(21,395)**	**(18,514)**	**(881,172)**	**(850,764)**	**2.43**	**2.18**

Treasury Bonds

> The debt servicing cost of Treasury Bonds was 2.08%. This is 5 bps ($1 billion) higher than 2021–22, driven by the higher yields for new issuance.

Chart 5 decomposes the current Treasury Bond portfolio by the fiscal year in which the bonds were issued. The average yield of the portfolio was suppressed by large issuance volumes in 2019–20 and 2020–21, which account for around 36% of the current portfolio. The average yield of Treasury Bond issuance has increased sharply since 2020–21, reaching 3.64% for bonds issued in 2022–23.

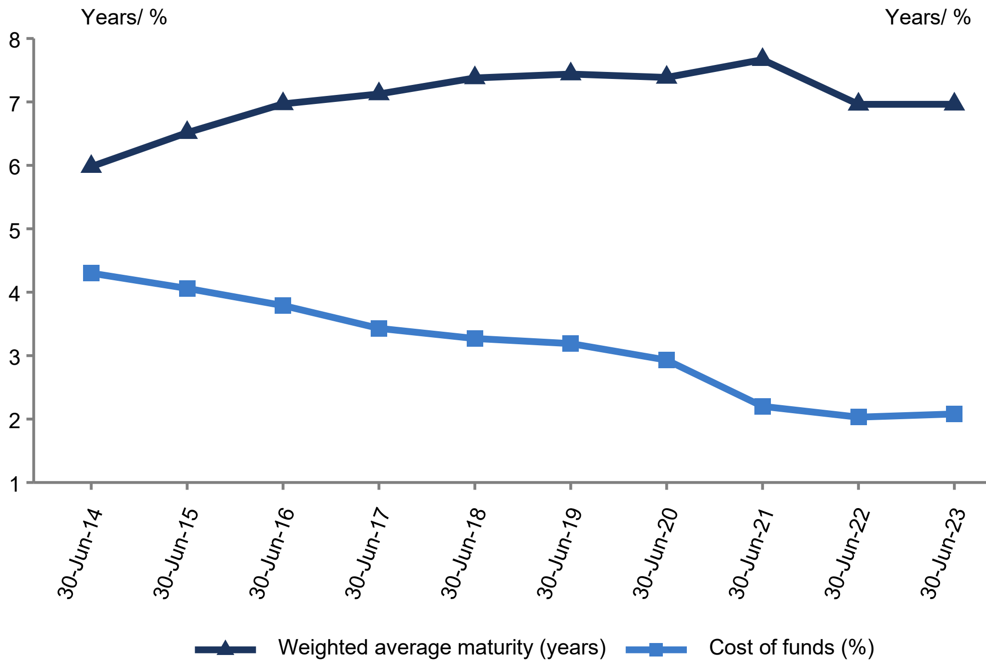
Chart 5: Treasury Bond portfolio composition and average yield by issuance year



The average maturity of the Treasury Bond portfolio remained unchanged over 2022–23 at 6.96 years (Chart 6).[3]

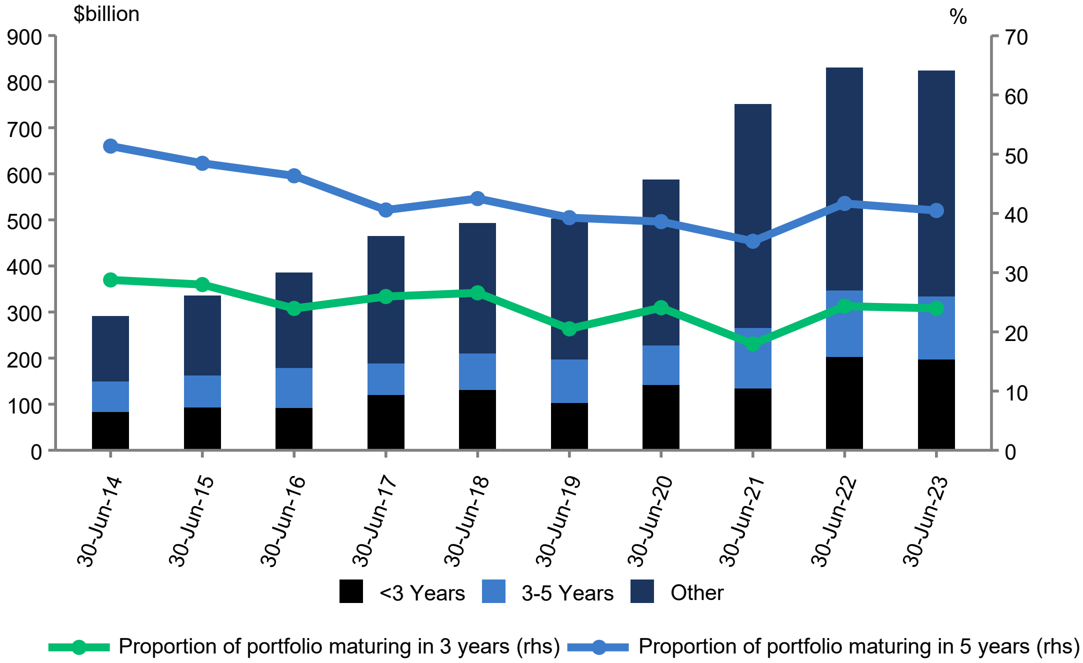
3 The average maturity here is calculated at year ends (30 June 2023 compared to 30 June 2022). The average maturity changes daily and had in fact reached a high of 7.14 years during 2022–23 before falling back down to 6.96 years by year end.

Chart 6: Treasury Bond portfolio average maturity, and cost of funds



Over the past decade the size of the debt portfolio has been increasing. Over the same time period the AOFM has lengthened the yield curve to 30-years. The aim has been to reduce, where possible, the proportion of the debt portfolio that matures and needs to be refinanced in any given year. Chart 7 shows portfolio funding and refinancing risk characteristics of the Treasury Bonds portfolio for each fiscal year over the past decade. As at 30 June 2023, bonds maturing in the next 3-year and 5-year periods account for 24% and 40% of bonds on issue, down from 29% and 51% as at 30 June 2014.

Chart 7: Treasury Bond portfolio – maturity profile



Ultra-long issuance

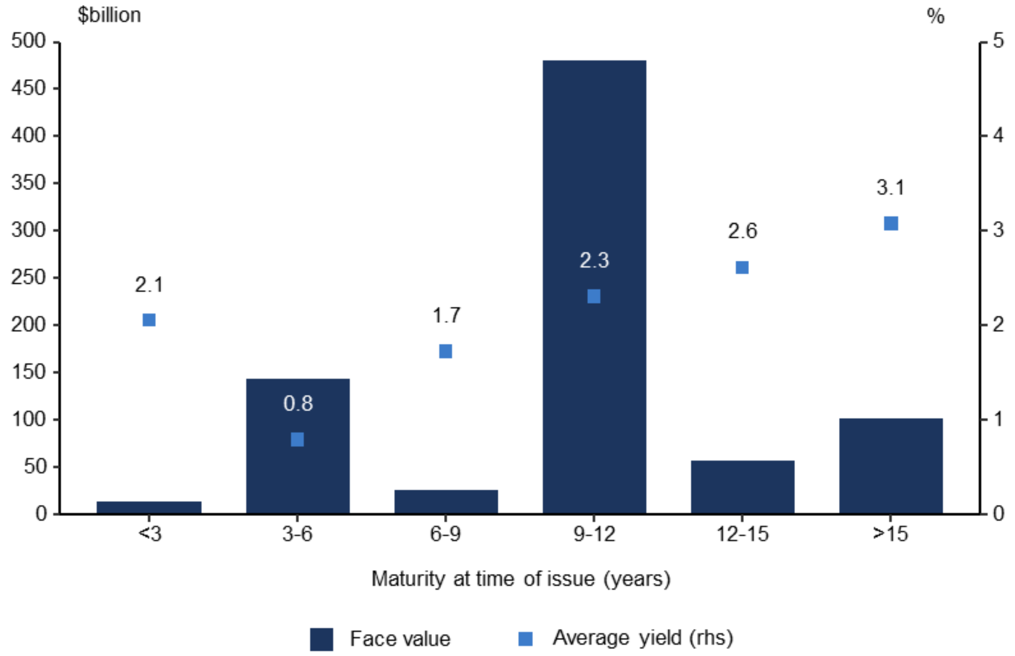
The AOFM currently maintains a 30-year yield curve, having gradually extended it from around 12 years in 2010 to 30 years in 2016. The key motivations behind our yield curve extension included minimising the variability of future debt service cost outcomes by 'locking in' funding costs for longer, increasing the range of issuance options available; increasing the diversity of the AGS investor base, and establishing a price benchmark for other issuers and financial market participants.

Demand for ultra-long bonds has primarily come from offshore investors, with fund managers comprising the largest investor category. Offshore investors tend to make investment decisions based on the level of outright yields, spreads to yields in other sovereign bond markets, currency levels and foreign exchange hedging costs. With respect to demand for ultra-long AGS, investors tend to focus on the spread between AGS and US Treasuries (USTs), with a wider spread to USTs attracting greater offshore interest.

The AOFM will continue to support the 30-year benchmark point through regular issuance and periodic introductions of new 30-year benchmark bond lines.

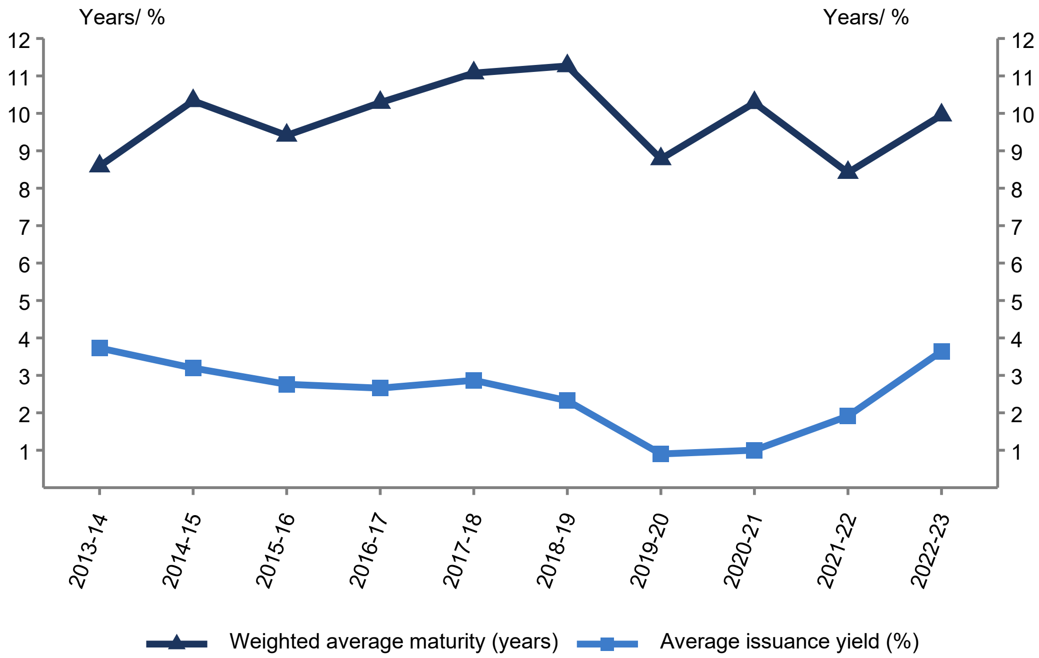
Around 60% of outstanding Treasury Bonds were issued with an original maturity of between 9 and 12 years. Close to 80% of the portfolio was issued with an original term to maturity of 9 years or longer. A longer-dated issuance bias reflects our prudence in trading off risk versus cost. Despite higher average yields on longer-dated issuance, the AOFM deems it appropriate to reduce refinancing risk and variability in debt servicing cost outcomes to a level in line with our risk appetite.

Chart 8: Treasury Bond portfolio composition by original maturity as at 30 June 2023



The WAM of Treasury Bond issuance in 2022–23 was 10 years, longer than the 2021–22 WAM of 8.42 years. This increase was primarily due to the launch of 2 new 10-year bonds with a flat yield curve making longer-dated issuance relatively more attractive.

Chart 9: Treasury Bond issuance – average yield and maturity



Treasury Indexed Bonds (TIBs)

Debt servicing cost on TIBs are driven by yields at issuance and CPI outcomes.

The effective yield on the TIB portfolio in 2022–23 was 8.38%, considerably higher than 4.63% in 2021–22. This was driven by high inflation outcomes.

Cash Management Portfolio (CMP)

> The CMP made a net return of 3.20% for 2022–23, 276 bps higher than in 2021–22.

Table 7: CMP returns (debt servicing costs)

	Return (Debt servicing costs)		Book volume		Effective yield	
	2022–23	2021–22	2022–23	2021–22	2022–23	2021–22
	$ million		$ million		% per annum	
Contribution by instrument						
Deposits with the RBA	1,716	110	56,767	50,652	3.02	0.22
Treasury Notes	(823)	(22)	(28,830)	(30,485)	2.86	0.07
Total	**893**	**88**	**27,937**	**20,167**	**3.20**	**0.44**

Policy Portfolios

> In total, the policy portfolios made a return of $123 million with an effective yield of 5.89%. The return on the policy portfolios increased by around 134 bps compared with 2021–22.

Income on state housing advances was $79 million for the period. Income on the ABSF was $18 million and income on the SFSF was $26 million. Income for the ABSF and SFSF comprises interest revenue and commitment fees but excludes allowances for expected credit losses.

Table 8: Policy portfolios returns

	Revenue		Book volume		Effective yield	
	2022–23	2021–22	2022–23	2021–22	2022–23	2021–22
	$ million		$ million		% per annum[3]	
Contribution by instrument						
ABSF investments[1]	18	3	245	99	7.35	3.00
SFSF investments[2]	26	32	496	1,073	5.14	3.04
State housing advances	79	83	1,340	1,420	5.86	5.85
Total	**123**	**118**	**2,081**	**2,592**	**5.89**	**4.55**

1 ABSF investment income is before allowances for expected credit losses ($1 million expense in 2022–23 and $0.6 million expense in 2021–22).

2 SFSF investment income is before allowances for expected credit losses ($0.6 million revenue in 2022–23 and $4.4 million revenue in 2021–22).

3 Effective yields were calculated using unrounded figures.

Performance for Key Activity 1.4

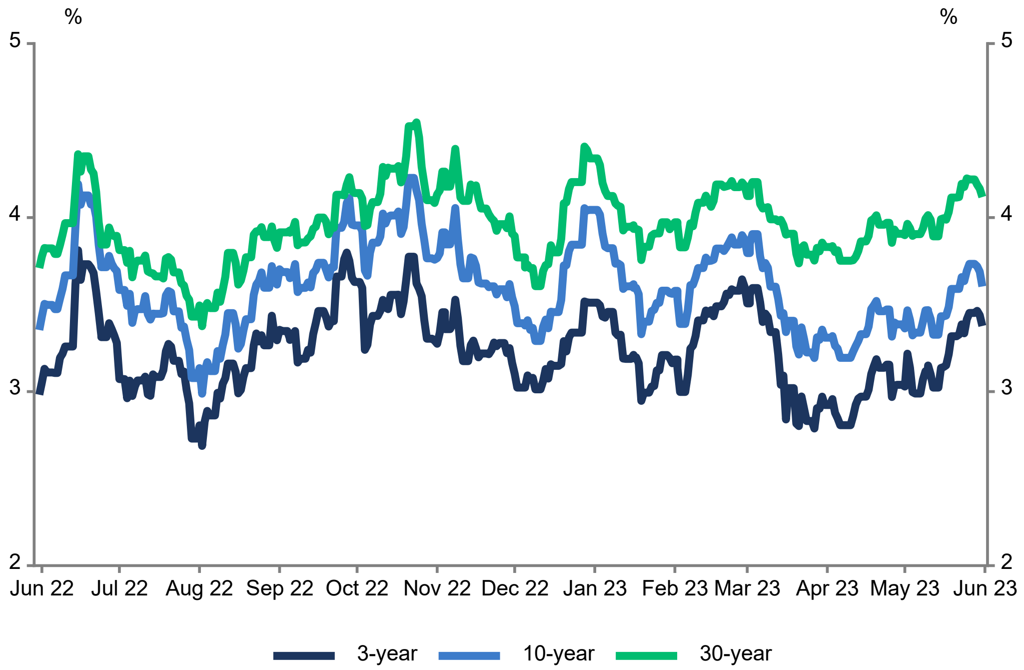
Indicator 1.4.1 Financing cost – issuance

The financing cost target for Treasury Bond issuance was not met.

The AOFM monitors issuance cost outcomes against the 10-year bond rate because it is a market-relevant benchmark which represents a highly liquid segment of the AGS yield curve.

Bond yields traded in a wide range over 2022–23 (see Chart 10). 10-year yields rose 41 bps over the year and traversed a greater than 1% range. The average yield on Treasury Bond issuance for 2022–23 was 3.64%, which is higher than the average 10-year bond rate of 3.61% over the year. The AOFM initially expected Treasury Bond issuance requirements to be $125 billion. The program was reduced to around $80 billion by the time of the 2023–24 Budget. As such a majority of issuance was conducted in the first half of 2022–23 when bond yields were on average higher.

Chart 10: Evolution of Treasury Bond benchmark yields



Appendix 1: Cost outcomes for the entire portfolio of debt and assets administered by the AOFM

The net debt servicing cost of the portfolio managed by the AOFM was $20.4 billion in 2022–23 (2021–22: $18.3 billion) on an average book volume of $851 billion (2021–22: $828 billion). This represents a net cost of funds of 2.39% (2021–22: 2.21%). Table 9 provides details of the cost outcomes for the portfolio of debt and asset administered by the AOFM, broken down by instrument and portfolio by financial year.

Table 9: Commonwealth debt and assets administered by the AOFM

	Debt servicing cost		Book volume		Effective yield	
	2022–23	2021–22	2022–23	2021–22	2022–23	2021–22
	$ million		$ million		% per annum	
Contribution by instrument						
Treasury Bonds	(17,314)	(16,314)	(832,445)	(803,207)	2.08	2.03
Treasury Indexed Bonds	(4,081)	(2,200)	(48,727)	(47,557)	8.38	4.63
Treasury Notes	(823)	(22)	(28,830)	(30,485)	2.86	0.07
Gross AGS	**(22,218)**	**(18,536)**	**(910,002)**	**(881,249)**	**2.44**	**2.10**
Deposits with the RBA	1,716	110	56,767	50,652	3.02	0.22
ABSF investments[1]	18	3	245	99	7.35	3.00
SFSF investments[1]	26	32	496	1,073	5.14	3.04
State housing advances	79	83	1,340	1,420	5.86	5.85
Gross assets	**1,839**	228	**58,848**	**53,244**	**3.12**	**0.43**
Net portfolio	**(20,379)**	**(18,308)**	**(851,154)**	**(828,005)**	**2.39**	**2.21**
Contribution by portfolio						
Long Term Debt Portfolio	(21,395)	(18,514)	(881,172)	(850,764)	2.43	2.18
Cash Management Portfolio	893	88	27,937	20,167	3.20	0.44
Investments for Policy Purposes Portfolio[1]	123	118	2,081	2,592	5.89	4.55
Total debt and assets	**(20,379)**	**(18,308)**	**(851,154)**	**(828,005)**	**2.39**	**2.21**

1 Investment returns are before allowances for expected credit losses.

Debt servicing costs for AGS were $3.7 billion higher than in the previous year. The increase was driven by the higher volumes of debt on issue, the higher interest rate environment, and the uplift in inflation over the past 12 months.

Return on gross assets for the period total $1.8 billion, an increase of $1.6 billion from the previous year. This was primarily due to higher returns on cash deposits and securitisation assets stemming from increases in short-term interest rates. In addition, the AOFM held higher average cash balances in 2022–23 compared to 2021–22.

For further information, refer to Part 4 – Financial Statements

PERFORMANCE ASSESSMENT: PURPOSE 2

Ensure the government can always meet its cash outlay requirements

How Purpose 2 is achieved

Management of the cash portfolio involves the AOFM using information from the Budget, Australian Taxation Office and spending agencies to forecast daily payments and receipts for the whole of government. There can be periods of significant mismatches between receipts and payments during the year. We use short-term funding in the form of T-Notes and cash balances to manage these mismatches.

The AOFM has minimal appetite for liquidity risk. The level of liquidity risk is assessed by considering the outlook for forecasting risk, funding risk and refinancing risk. We then consider appropriate levels for cash balances and reliance on T-Notes.

Table 10: Summary of performance for Purpose 2

Performance measures		2022–23 Performance	
		Target	Results
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		
2.1.1	**Annual liquidity management strategy:** formulate an annual liquidity management strategy and advise the Secretary to the Treasury with supporting analysis.	Prior to start of fiscal year	Met
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.		
2.2.1	**Use of overdraft facility:** the number of instances the RBA overdraft facility was utilised.	Zero	Met

Key Activity 2.1: Establish a liquidity management strategy

The liquidity management strategy details a high-level framework for the AOFM's liquidity management. The strategy focuses on the management of cash balances and the usage of T-Notes. It identifies how we intend to ensure that the government's cash requirements are met in full and on time.

Performance for Key Activity 2.1

Indicator 2.1.1 Annual liquidity management strategy

> The target to formulate and advise the Secretary to the Treasury of the liquidity management strategy prior to the beginning of the 2022–23 financial year was met.

In June 2022, the Secretary to the Treasury was briefed on the 2022–23 liquidity management strategy.

Key Activity 2.2: Conduct the cash management task

Cash Management Portfolio (CMP)

Effective cash management ensures the government can always meet its expenditure obligations at an acceptable cost.

Achieving the cash management objective involves forecasting government cash flows and implementing appropriate strategies for short-term investments and debt issuance.

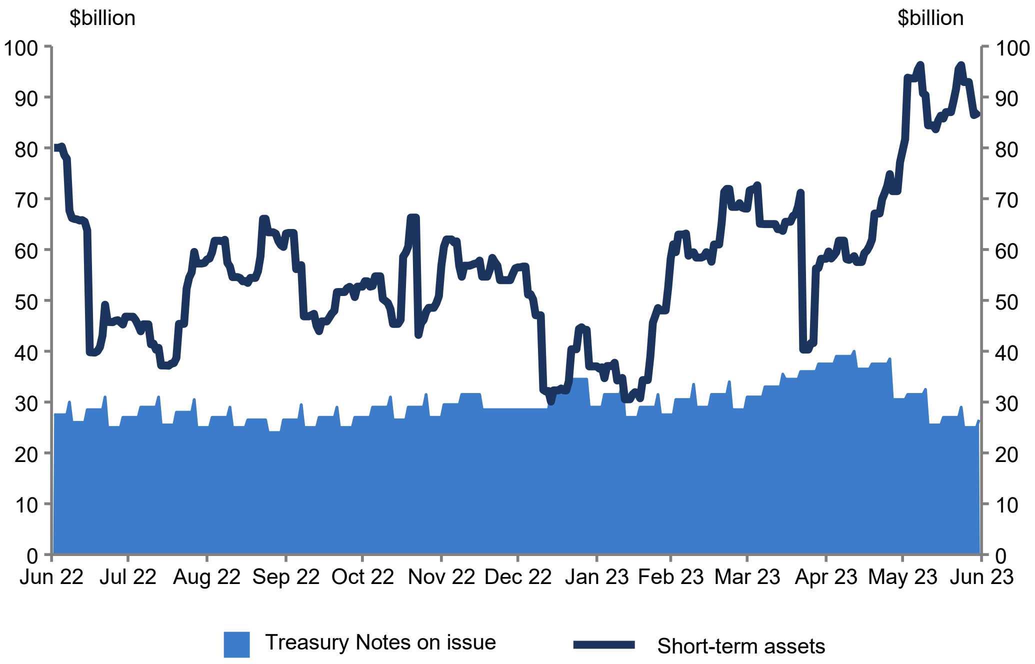
A liquidity buffer is maintained to manage the forecasting risk associated with large, unexpected cash requirements (or shortfalls in revenue collections) and the funding risk associated with sudden and severe market constraints on issuance.

All cash management investments are held in the Cash Management Account (CMA) at the RBA. The CMA earns an interest rate equivalent to that earned by the RBA in its open market operations. The volume of assets in the CMA ranged from a low of $30.1 billion to a peak of $96.3 billion in 2022–23.

The volume of T-Notes on issue during 2022–23 ranged from $24 billion to $40 billion. The AOFM committed to maintaining at least $25 billion of T-Notes on issue.

The movement in total short-term financial assets managed by the AOFM together with the volume of T-Notes on issue during 2022–23 is shown in Chart 12.

Chart 11: Cash holdings and Treasury Notes



Monitoring the yield (interest cost) of the CMP reflects the AOFM's aim of minimising borrowing costs. The AOFM makes judgements about the cost of carrying excess cash at any time (i.e., borrowing too soon or too heavily) against the risks associated with an unacceptably low level of cash liquidity.

The net return earned by the CMP was $893 million in 2022–23, an increase of $805 million compared with 2021–22. This is attributable to higher interest rates on the CMA and a higher average net asset position for the portfolio.

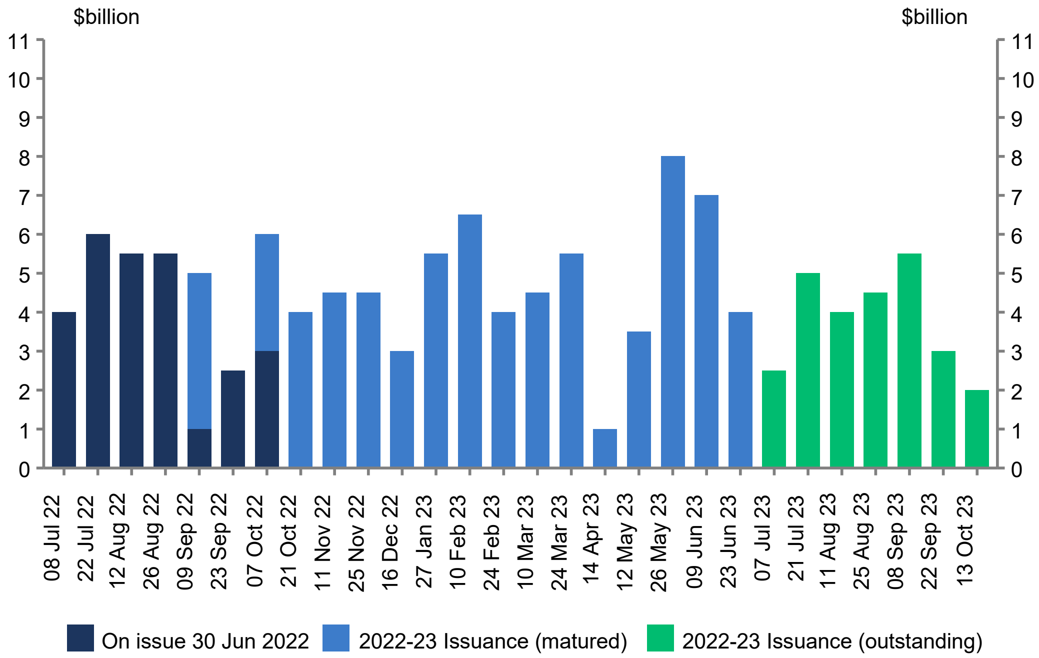
Treasury Notes (T-Notes)

T-Notes are issued to manage within-year cash requirements.

T-Notes on issue decreased by $1 billion over the course of 2022–23. Issuance focused on tenors of less than 6 months. T-Notes totalling $96.5 billion (in face value terms, dealt basis) were issued in 2022–23, a decrease of $2 billion from 2021–22.

Chart 13 shows T-Note maturities and issuance over the year.

Chart 12: Treasury Note issuance and maturities in 2022–23



Performance for Key Activity 2.2

Indicator 2.2.1 Use of overdraft facility

The target of zero usage of the overdraft facility was met.

The RBA overdraft facility was not used in 2022–23

PERFORMANCE ASSESSMENT: PURPOSE 3

Conduct market facing activities in a manner that supports a well-functioning AGS market

How Purpose 3 is achieved

Consistent and regular market engagement assists the AOFM in achieving our core goals and to meet these, we maintain a comprehensive understanding of market related issues. Aspects we monitor include changing global circumstances, major government fiscal announcements, influences on global capital flows, changing investor preferences and the performance of intermediaries – particularly in the primary AGS market.

Table 11: Summary of performance for Purpose 3

Performance measures		2022–23 Performance	
		Target	Results
Key Activity 3.1	**Communicate the AOFM's 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.		
3.1.1	**Market commitments:** the number of times the AOFM failed to conduct issuance operations consistent with prior market announcements.	Zero	Not met[4]
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).		
3.2.1	**Investor publications:** the number of times investor targeted information publications are updated and made available on the AOFM website.	At least twice per year	Met
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.		
3.3.1	**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.	Greater than previous fiscal year	Not met

4 The AOFM was unable to issues T-Notes on 22 September 2022 due to the National Day of Mourning for the late Sovereign, Elizabeth the Second. The AOFM's market commitment to maintain a minimum stock of Treasury Notes on issue was not met for a period of one week as a result.

Key Activity 3.1: Communicate the AOFM's operations clearly and consistently to the market

A sovereign debt issuer needs to focus on communicating to financial markets regularly, and act consistently with its announcements.

The AOFM is judged by financial markets to be a credible and predictable participant in the AGS market and uses its operational flexibility responsibly. However, it is important to note we do not have any regulatory or statutory authority. Any influence we have is by virtue of our communications about issuance, portfolio intentions and specific operations. Nonetheless, we recognise there is the potential for this influence to be significant.

Performance for Key Activity 3.1

Indicator 3.1.1 Market commitments

> The target for market commitments was not met. The AOFM's actions remained consistent with its public market announcements and updates throughout the year, however because the AOFM was unable to issues T-Notes on 22 September 2022 due to the National Day of Mourning for the late Sovereign, Elizabeth the Second, the commitment to maintain at least $25 billion of T-Notes on issue was not met for a period of one week (with the balance falling to $24 billion).

The AOFM uses several channels to communicate with financial markets. Forthcoming transactions are announced weekly, with higher-level guidance on issuance plans (including annual volumes and plans for new bond lines) published a few times each year. An annual address to the Australian Business Economists (ABE) forum is used to provide an understanding of the basis on which we make many of our operational and portfolio judgements. Information on a range of matters pertinent to the AOFM's investor base is published on our website.

During 2022–23, weekly forthcoming transaction notices were released at noon on Fridays, as per convention. All tenders and syndications were conducted in accordance with those notices.

The size of the annual issuance program was announced and updated after the release of the 2022–23 Budget in October 2022 and the 2023–24 Budget in May 2023. Additional detail on the issuance program, including plans for new bond lines, were published in half-yearly updates in July 2022 and January 2023 (an update was also provided in June 2023 for the 2023–24 year).

Key Activity 3.2: Conduct a market engagement program

Why is market engagement important?

The AOFM conducts market engagement with intermediaries and investors, based on direct interactions and indirect communication. This is with investors through feedback from banks, and with market participants generally on the AOFM website.

Regular engagement assists in understanding how investors are viewing the market, how demand for AGS might be changing and how intermediaries interact with investors. We use these engagements as a way of gathering information about market dynamics and conditions to inform decision making.

The AOFM's investor engagement combines several approaches. These involve meetings with investors as well as addresses to forums at which AGS investors are present. The program is underpinned by an investor relations strategy and an annual investor relations plan. The timing of engagement can vary but we typically commence a cycle of offshore meetings soon after official Budget updates.

The investor relations strategy has 3 themes:

- Collecting and analysing market intelligence
- Managing and maintaining updates to our planned operations
- Focusing on engagement with new or potential investors.

Summary of 2022–23 investor engagement activities

For 2022–23 the AOFM was able to conduct most of its investor engagement in person, although virtual meetings remained a useful medium.

We met with investors in 3 overseas regions in the first 6 months of the year. These included a week in Japan in July, 6 days in South East Asia and India in October, and 4 days in Europe following the Organisation for Economic Co-operation and Development (OECD) Conference in early November.

Domestic investor meetings were conducted in March 2023 with 23 accounts and these meetings were also used to introduce our newly appointed CEO.

The remainder of the year was focused on the organisation and running of the fifth Australian Government Fixed Income Forum in Tokyo (the Tokyo Forum) in May 2023. The was the first forum the AOFM had conducted since the pandemic, and the first in 5 years. The Forum had several senior Australian officials present including the Secretary of the Treasury, the RBA Head of Domestic Markets, CEOs from the 4 largest State borrowing authorities, the Australian Securitisation Forum, and the AOFM. Around 100 individual investors from 65 institutions attended.

We also conducted a roundtable discussion on the TIB market in May, bringing together domestic investors and market intermediaries to discuss the current state of the TIB market and ideas to improve its functioning.

Throughout the year, the AOFM presented at several different events, including the CEO's annual address to Australia Business Economists luncheon, the Asian Development Bank Regional Forum on Investment Management of Foreign Exchange Reserves and several bank fixed income conferences, investor tours and roundtable discussions.

Three AOFM 'Investor Insights' reports were published during the year covering a range of different topics of interest to market participants.

Investor interest in Australia's climate, environmental and emission polices continued to gather momentum, particularly following the Treasurer's announcement that Australia will issue a green bond by mid-2024. The AOFM continued to update Australia's Climate Change Commitments, Policies and Programs slides (available on our website) including some initial details on the path to setting up the Australian Government Green Bond Framework. This is currently being constructed by Treasury with our assistance.

What is the Australian Government Fixed Income Forum and why does the AOFM hold it?

The Australian Government Fixed Income Forum is a half day event focused on Australian Government issuers in the Australian dollar (AUD) fixed income markets and exclusively aimed at investors from Japan. Presenters include senior government officials from the AOFM, Treasury, RBA, and largest state borrowing authorities (known as the semis). It provides an opportunity for institutional investors from Japan to hear from and ask questions of Australian Government officials and major government issuers. The event has been very well attended by investors from Japan.

The Forum is held in Tokyo because investors from Japan in AGS and semi government bonds are numerous (the most of any country measured by the number of different investors), and they have historically been long term and steady holders of both. This strong interest includes a retail bid through fund managers and life insurance companies based in Japan.

The AOFM have conducted 5 forums in total, the first being in December 2013. The most recent Forum was held on 24 May 2023.

Forum key note speakers

(Left to right – standing) David Jacobs: Head of Domestic Markets, RBA, Suguru Kuwahata: President Franklin Templeton Japan, Anthony Kirkham: Head of Australia and New Zealand Investment Management, Western Asset Management.

(Left to right – sitting) Chihiro Fujimoto: Finance Officer World Bank, Michael Larkin: Managing Director, Treasury Corporation of Victoria, David Deverall, Chief Executive Officer, New South Wales Treasury Corporation, Dr Steven Kennedy PSM: The Treasury Secretary, Australian Department of Treasury, Anna Hughes: Chief Executive Officer, AOFM, Leon Allen: Chief Executive Officer, Queensland Treasury Corporation, and Kaylene Gulich: Chief Executive Officer, Western Australian Treasury Corporation.

The state semi authorities panel

(Left to right) Suguru Kuwahata: President Franklin Templeton Japan, David Deverall, Chief Executive Officer, New South Wales Treasury Corporation, Leon Allen: Chief Executive Officer, Queensland Treasury Corporation, Michael Larkin: Managing Director, Treasury Corporation of Victoria, and Kaylene Gulich: Chief Executive Officer, Western Australian Treasury Corporation.

Table 12 summarises the extent of investor engagement activities for the year.

Table 12: Summary of investor relations activities in 2022–23

Activity	Details
Offshore investor campaigns	58 meetings
Domestic investor campaigns	28 meetings
Ad hoc meetings	3 meetings
Presentations: large engagements	5 presentations (ABE speech, the AOFM Tokyo Forum, ADB Regional Reserve Managers conference, bank investor conferences)
Roundtable discussions	2 Roundtables (KangaNews roundtable on markets issues, the AOFM TIBs Roundtable)
The AOFM's staff participating in investor relations.	CEO, Head of Investor Relations, Head of Funding and Liquidity, Head of Portfolio Strategy and Research, Manager – Investor Relations, Analyst – Investor Relations
Hosting banks: investor roadshows, conferences, roundtable discussions	ANZ, Commonwealth Bank of Australia, Deutsche Bank, JP Morgan, NAB, UBS, Westpac

Performance for Key Activity 3.2

Indicator 3.2.1 Investor publications

The target for investor publications was met.

The AOFM published an Australian Government climate change commitments, policies and programs chart pack and 3 *Investor Insights* during 2022–23. These publications were made available on our website.

Key Activity 3.3: Support financial market liquidity

Efficient functioning markets require market liquidity.

Market liquidity is a key element of market efficiency that is important to issuers, intermediaries and investors. Bond markets rely heavily on market liquidity for smooth functioning. While there is no single definition of liquidity, it is broadly thought of as the ability for investors to trade meaningful parcels of bonds at will, without affecting price.

Good bond market liquidity is associated with numerous competing intermediaries (typically reflected through tight bid-offer margins), a readily available stock of assets to be traded (the 'free float'); the amount of balance sheet that intermediaries (individually and collectively) have allocated to 'market making', ready access to interest rate risk hedging, and investor confidence about engaging in the market.

The AOFM supports market liquidity through regular and consistent issuance across the yield curve. We monitor market demand to determine where our issuance efforts are best placed to support market functioning, including the establishment of new bond lines.

Issuing bonds across the yield curve

The AOFM typically issues into bond lines across the entire Treasury Bond yield curve (with the exception of very short-dated bond lines). 23 of the 27 bond lines longer than 2 years in tenor were issued during 2022–23. Issuing into bond lines with a wide range of maturities benefits investors, bond market functioning, and the AOFM portfolio:

- assisting market liquidity
- supporting diversity in the investor base
- stimulating active trading in bond lines
- ensuring all bond lines are of sufficient size to facilitate market liquidity.

Bond market liquidity is important for investors and ultimately reduces our borrowing costs.

Market liquidity also benefits from the AOFM's support for the 3-year and 10-year Treasury Bond futures contracts. Regular issuance and trading of the underlying bonds enhances the liquidity of the futures contracts which are important for the management of interest rate risk in the Australian financial system. Depth and liquidity in the futures contracts complements the AOFM's funding program by supporting intermediation in Treasury Bonds and encouraging investor participation and diversity.

Why is investor diversity important to the AOFM?

Having a diverse and wide-ranging set of investors fosters the resilience of the Treasury Bond market by rendering market liquidity less susceptible to shocks or environmental changes affecting investors or types of investors. Typically, market shocks affect types of investors in different ways, so having a variety of investors reduces the likelihood that they will all respond in a similar manner to a specific event.

Bond market liquidity is further supported by the availability of a securities lending facility which enables smooth intermediation and reduces the risk of failed settlements.

Securities Lending

The AOFM Securities Lending Facility allows market participants to borrow Treasury Bonds and TIBs for short periods when they cannot be obtained in the secondary market. Lending bonds into the market for short periods enhances efficiency of the market by improving the capacity of intermediaries to continuously make 2-way prices, reducing settlement risk and supporting market liquidity.

The facility was used 137 times (based on transaction end date) for overnight borrowing in 2022–23 compared with 215 times during 2021–22. Volumes borrowed were also lower than in 2021–22, with the total face value lent in 2022–23 of $2.4 billion, a decrease of $1.7 billion. The June 2035 Treasury Bond and August 2040 TIBs were the most heavily borrowed by volume.

TIBs generally exhibit lower liquidity and have less stock available for trading in the secondary market, which accounts for regular borrowing of these securities.

The RBA has operated its own lending facility since late 2020. It holds large volumes of some Treasury Bond lines and makes these available for lending to aid market functioning. This has contributed to reduced usage of the AOFM Securities Lending Facility.

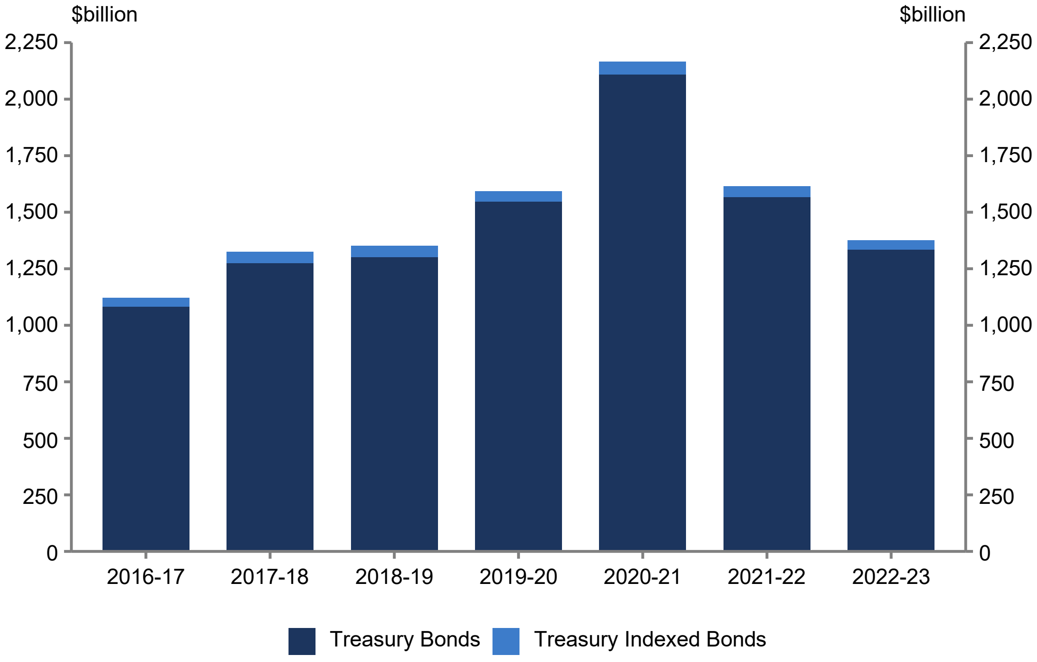
Performance for Key Activity 3.3

One important measure of market liquidity is secondary market turnover. The AOFM collects monthly survey turnover data for Treasury Bonds and TIBs from financial intermediaries.

Indicator 3.3.1 Secondary market turnover

> The target for secondary market turnover of Treasury Bonds and Treasury Indexed bonds to be greater than the prior year was not met.

Chart 13: Annual turnover for Treasury Bonds and Treasury Indexed Bonds



Secondary market turnover for Treasury Bonds in 2022–23 was $1.3 trillion. This was a decrease of around $230 billion from 2021–22. Turnover in 2022–23 was lower due to several factors, including a lower primary issuance program, the cessation of RBA bond purchases (which contributed to higher turnover in the three previous fiscal years) and at times elevated volatility in markets.

TIB turnover in 2022–23 was around $43 billion, a reduction of around $6 billion from 2021–22.

PERFORMANCE ASSESSMENT: PURPOSE 4

Meet the priorities of the ABSF and SFSF

How Purpose 4 is achieved

Australian Business Securitisation Fund (ABSF)

The ABSF was established in 2019 to increase the availability, and reduce the cost, of credit provided to SMEs.

The AOFM has sought to use the ABSF to support the development of the Australian securitisation market so that it can finance new and emerging types of SME lending, including unsecured lending.

A key part of our strategy has been to assist with establishing a track record for these new types of SME lending. By standardising the format in which loan performance data is presented to rating agencies and investors, it is expected that the credit assessment process will be made more efficient. In time, this is expected to attract new capital to the sector.

The AOFM has contributed to the design and development of an SME loan data template that has been led by the ASF. While the first version was published in 2021, work on version 2 commenced in 2022–23, with the objective of harmonising with international standards, including the European data standard. We continue to sponsor the adoption of the ASF template through the ABSF. ABSF proponents are asked to commit to implementing the template in a timely manner as a condition of ABSF investment. In return, we are prepared to temporarily accept a below market rate of return to subsidise implementation costs.

The AOFM has also sought to support the development of the market for public asset backed securities (ABS) collateralised by underdeveloped types of SME lending. In September 2022, we announced that we will partially underwrite suitable ABS transactions to reduce execution risk.

Structured Finance Support Fund (SFSF)

The SFSF was established in March 2020 to ensure continued access to funding markets affected by the economic effects of the COVID-19 pandemic, and to mitigate the impacts of these economic effects on competition in consumer and business lending markets.

A total of $15 billion was credited to the SFSF's special account in 2020, of which a peak in approved commitments of $3.8 billion was reached in 2020–2021.

As proponents are required to demonstrate a loss of access to finance resulting from the COVID-19 pandemic as a pre-condition of support, the SFSF has made no new investments since 2021 and is now effectively in run-off.

Table 13: Summary of performance for Purpose 4

Performance measures		2022-23 Performance	
		Target	Results
Key Activity 4.1	**Manage the ABSF program by:** • seeking ABSF proposals from relevant market participants • making investment in suitable proposals • meeting subscription notices • monitoring investment performance.		
4.1.1	**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.	Greater than Bloomberg AusBond Treasury 0–1 year index	Met
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.		
4.2.1	**SFSF losses:** gross credit losses for a fiscal year divided by the average drawn (invested) amount in percentage point terms.	Zero	Met

Key Activity 4.1: Manage the ABSF program

International credit market conditions remained challenging through the course of the 2022–23 financial year. No new warehouse investments were approved for ABSF investment during the year. However, the AOFM was successful in reducing the ABSF's credit risk by elevating its position in the capital structure of a small number of existing warehouse investments.

One investment was made in November 2022 in the senior tranche of a public ABS transaction, arising from the partial underwriting process announced in September 2022. No other eligible ABS transactions have come to the market since that time that were predominantly backed by underdeveloped types of SME loans. This inaugural public ABS investment took the ABSF's total number of investments to five, and the total commitments of these investments stood at $527.5 million as at 30 June 2023.

Performance for Key Activity 4.1

Indicator 4.1.1 ABSF rate of return

The performance benchmark for the ABSF was exceeded during 2022–23.

The ABSF's return benchmark is set out in the *ABSF Investment Mandate Directions (2019)*. The ABSF achieved a gross return on average drawn funds of 7.35% for the financial year ending 30 June 2023, compared to a benchmark return of 1.56%.

The key drivers of ABSF financial out-performance in 2022–23 are its investments in floating rate assets that pay fixed margins over variable interest rates, which rose by over 3 percentage points throughout the year. By contrast, the benchmark is underpinned by short-dated fixed-rate debt instruments, which suffered some revaluation losses that partially offset its higher running yield.

Another factor that contributed to the ABSF exceeding its return benchmark is that the AOFM seeks to price its investments at a market rate, less any subsidy applied to reducing the cost to proponents adopting the SME loan data template. In doing so, we seek to avoid both distorting the competitive landscape in the market for SME lending and crowding out private sector investment from this segment of the market.

A third factor that contributed to the ABSF's outperformance was that it suffered no credit losses through the course of the year, while being compensated for taking credit risk equivalent to the lower end of investment grade ratings. Moreover, while the one investment made during the year reduced the average credit risk across the portfolio, the transaction priced at a time when credit spreads were relatively wide, allowing historically high credit margins to be locked in by the ABSF for an extended period.

Key Activity 4.2: Manage the SFSF program

Despite continued challenging credit market conditions throughout 2022–23, the SFSF continued to exit private warehouse investments. By the end of the financial year, the SFSF held one remaining warehouse investment, with a $50 million commitment.

Public investments held by the SFSF also continued to amortise during 2022–23, falling from $560 million to $290 million. No public investments were sold by the SFSF.

Finally, the outstanding balance of investments held by the SFSF in the Forbearance Special Purpose Vehicle, a facility established to allow non-bank lenders to provide 'payment holidays' to their clients during the pandemic, fell from $26 million to just under $16 million through the course of the financial year. The remaining loans outstanding as at 30 June 2023 were owed by 4 participating originators, a reduction by one through the course of the year, due to early repayment.

Across the components of the SFSF, the total committed exposure fell to just under $356 million through the course of the financial year, less than 10% of the fund's peak commitment reached in 2020–21.

Performance for Key Activity 4.2

Indicator 4.2.1 SFSF losses

The target for SFSF gross credit losses was met for 2022–23.

No credit losses have been incurred on the program since inception in March 2020.

The AOFM undertook due diligence and credit assessment at the time each investment was made and monitors the performance of the investments within the SFSF.

The total outstanding investments of the SFSF roughly halved over the course of 2022–23, reducing the exposure to credit risk commensurately. As at 30 June 2023, over 80% of the remaining exposure – $290 million of the $356 million total – was held in term securitisation investments with an investment grade credit rating, more than 90% of which were AAA rated. The riskiest part of the portfolio, the exposure to the Forbearance Special Purpose Vehicle (fSPV), is quite limited in size, with a current exposure of $16 million, equating to just over 4% of the fund.

PART 3: MANAGEMENT AND ACCOUNTABILITY

A. CORPORATE GOVERNANCE

Effective sovereign debt management requires a strong focus on corporate governance and risk management.

The AOFM is a listed non-corporate Commonwealth entity under the PGPA Act and is legally and financially part of the Commonwealth.

The AOFM's CEO is responsible for directing the AOFM's operations and is accountable to the Treasurer and the Secretary of the Treasury. The Treasurer is responsible for administering the Commonwealth's borrowing legislation, and the Department of the Treasury has responsibility for "borrowing money on the public credit of the Commonwealth".[5]

As such, the Secretary of the Treasury is accountable for debt management and advising the Treasurer on debt management policy, drawing on the resources of the AOFM and the Treasury for this purpose. The AOFM's officials have been delegated powers and authorisations by the Treasurer for the purposes of debt management, including debt issuance.

The AOFM's governance arrangements ensure that sound business practices underpin decision making. Corporate governance arrangements are supported by a culture of risk awareness, accountability, transparency and integrity. Key components of the AOFM's corporate governance framework are:

- Corporate planning and performance monitoring;
- Oversight by an audit and risk committee with independent members, including the Chair;
- Internal committees to support decision making on a range of significant or whole of agency matters;
- A risk management framework including enterprise risk, business continuity, and assurance and compliance activities;
- Approval of the financial risk management policy, and debt management and liquidity management strategies by the Secretary of the Treasury; and
- Legislative instruments governing the AOFM's activities.

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5 As per Administrative Arrangement Orders issued by the Governor-General of the Commonwealth of Australia.

Governing legislation

Our activities are governed by various legislative instruments, as shown in Table 14.

Table 14: List of legislative instruments

Legislation	Purpose
Public Governance, Performance and Accountability Act 2013 (PGPA Act)	To establish a system of governance and accountability for public resources with an emphasis on planning, performance and reporting.
Public Service Act 1999 (PS Act)	To provide for the establishment and management of the Australian Public Service (APS), including matters arising from terms and conditions of employment, code of conduct, engagement, termination, and retirement of APS employees. • The AOFM's staff are employees of the Department of the Treasury under the Act, and the Secretary of the Treasury has delegated his powers under the Act to the AOFM CEO in relation to the AOFM staff.
Commonwealth Inscribed Stock Act 1911 (CIS Act)	The Australian Government's primary vehicle for borrowing money denominated in Australian currency on behalf of the Commonwealth of Australia through the creation and issuance of stock and securities. • Under the Act, the Treasurer is required to set a direction as to the maximum total face value of stock and securities that may be on issue under the Act and other borrowing legislation. • On 7 October 2020, the then Treasurer issued an amended direction permitting borrowings up to $1.2 trillion.
Australian Business Securitisation Fund Act 2019 (ABSF Act)	To provide for investments in authorised debt securities and other eligible expenditures to meet the purpose of the Act. • Pursuant to the Act, on 10 April 2019 the then Treasurer issued rules setting out additional requirements for a debt security to constitute an authorised debt security and to prescribe those officials that may be eligible delegates under the Act.
Structured Finance Support (Coronavirus Economic Response Package) Act 2020 (SFS Act)	To provide for investments in authorised debt securities and other investments and other eligible expenditures to meet the purposes of the Act. • Pursuant to the Act, on 25 March 2020 the then Treasurer issued rules that set out additional requirements for a debt security to constitute an authorised debt security and to prescribe those officials that may be eligible delegates under the Act.

Committees

During 2022–23, the following committees provided advice and support for decision making.

Table 15: List of the AOFM's committees

Committee Name	Purpose and membership
Advisory Board (I)	Assisted the Secretary of the Treasury (the Secretary) to assess the AOFM's proposed debt management, liquidity management and investment strategies and advised the Secretary on matters relating to debt and investment markets. Membership comprised the Secretary (Chair), Deputy Secretary of Treasury's Fiscal Group, the AOFM CEO and 4 external members.
Audit and Risk Committee (I)	Provided independent advice to the CEO on the appropriateness of the AOFM's governance, enterprise risk management, internal control, and financial and performance reporting arrangements. Membership comprised 3 external members, one of whom was Chair.
Executive Leadership Group (M)	Provided guidance and oversight on corporate related matters. It oversaw development of annual strategic plans and tracked progress against performance targets, reviewed the AOFM's risk profile, set the agency risk appetite, and monitored financial performance, compliance and workforce planning. Membership comprised the CEO and all business unit heads.
Cash Management Meeting (M)	Monitored liquidity risk, forecasting performance and other considerations in managing the government's cash portfolio. Membership comprised the CEO (Chair), Head of Funding and Liquidity[6] and other front office staff.
Portfolio Strategy Meeting (M)	Advised on operational debt portfolio and financial risk management issues, financial market conditions, deal execution and other issues of strategic interest to the AOFM's market related operating environment. It focused on medium-term to longer-term trends and risks. Membership comprised the CEO, Head of Portfolio Strategy and Research, Head of Funding and Liquidity, Head of Investor Relations, and Head of Structured Finance and Strategy, with other staff holding relevant functional responsibilities invited as contributors and observers.

6 From mid-June 2023 the Funding and Liquidity and Portfolio, Strategy and Research business units merged to become Funding, Strategy and Research

Committee Name	Purpose and membership
Security Committee (M)[7]	Provided oversight of security management within the AOFM. Membership comprised the CEO, Chief Risk and Assurance Officer (CRAO) (Chair), Chief Operating and Finance Officer (COFO), Head of Business and Data Systems (BDS) and IT Security Advisor. The head of the Treasury Security Team was also invited to attend *ex officio* to assist with security harmonisation.
IT Steering Committee[8] (M)	Provided oversight of the performance of the outsourced IT service provision to the Treasury, internal projects that enhanced business outcomes through IT, and monitored cloud computing developments of relevance. Membership comprised the Head of BDS (Chair), CEO, COFO, Project Manager BDS, Manager BDS, Analyst BDS and Senior Analyst Investor Relations.
Information Governance Committee[9] (M)	Provided a mechanism to enhance and monitor the AOFM's record-keeping and information management practices. Membership comprised the CEO, COFO, CRAO and Head of BDS.
Learning and Development Committee[10] (M)	Assessed applications for study assistance, training programs, coaching and professional memberships and reviewed the appropriateness of training provider content for whole-of-office development activities. Membership comprised the CEO, 2 Executive Leadership Group members (on a staggered 12-month rotation) and the Senior Advisor – People.

(I) Independent committee

(M) Management committee

Advisory board

The Advisory Board (Board) is responsible for assisting the Secretary of the Treasury (as Chair) to assess the AOFM's proposed debt management, liquidity management and investment strategies and advise on matters relevant to debt and investment markets. The Board does not possess executive powers or

7 Decommissioned in quarter 4 of 2022–23 with oversight responsibilities to be performed by the Operations Committee, which will commence operation in early 2023–24.

8 Decommissioned in quarter 4 of 2022–23 with oversight responsibilities to be performed by the Operations Committee, which will commence operation in early 2023–24.

9 Decommissioned in quarter 4 of 2022–23 with oversight responsibilities to be performed by the Operations Committee, which will commence operation in early 2023–24.

10 Decommissioned in quarter 4 of 2022–23, with responsibility for learning and development activities devolved back to business unit heads.

decision-making authority but offers the Secretary comprehensive guidance based on external perspectives and practices and financial market experience.

The Board is accountable to the Secretary and had its first meeting proper in June 2023. Four external members have been appointed:

- Anne Anderson
- Stephen Knight
- William Whitford
- Curt Zuber.

Audit and risk committee

The AOFM Audit and Risk Committee provides independent advice to the CEO on the appropriateness of the AOFM's financial and performance reporting, risk oversight and management, internal control environment and governance arrangements. The responsibilities and functions of the audit and risk committee are outlined in the Audit and Risk Committee Charter.[11]

Key activities of the committee during 2022–23 included:

- Advising on preparation and review of the AOFM's financial statements and annual performance statement
- Considering developments in the AOFM's risk profile and compliance performance, as reported through quarterly risk and assurance reports, including internal audit
- Reviewing the appropriateness of fraud control strategies and monitoring activities
- Monitoring implementation of audit recommendations.

The audit and risk committee met 4 times during 2022–23 and conducted in-camera sessions with internal and external auditors during the year. Table 16 provides information about membership of the audit and risk committee.

11 The Audit and Risk Committee Charter can be accessed through the following link: https://www.aofm.gov.au/about/compliance-reports/audit-and-risk-committee-charter

Table 16: Audit and Risk Committee for 2022-23

Members	Qualifications, skills and experience	Attendance	Remuneration [a]
Stephen Knight, Independent Member, Chair	BA, FAICD. 35-year executive career in the finance industry across private and public sectors in a variety of senior roles, including 10 years as CEO. Extensive experience across financial markets, government finance, investment banking, funds management and risk management. Non-executive director roles covering ASX-listed, non-listed and government entities.	4/4	$23,775
Don Cross, Independent Member	BA, Fellow of Chartered Accountants Australia and New Zealand, CPA, MBA. A background in financial statement audit, internal audit, management assurance and performance and program management. Background, skills and experience is leveraged as the Chair or as Member of Audit and Risk Committees for Federal Government departments and Corporate Commonwealth Entities delivering policy, regulatory and service delivery functions.	4/4	$18,143
Cath Ingram [b], Independent Member	BA, Fellow of Chartered Accountants Australia and New Zealand, FIPA, and Certificate IV in Fraud Investigations. Registered Company Auditor for over 20 years and experienced Internal Auditor and Risk Management practitioner. Public and Private sector experience in governance, risk, assurance over large IT enabled programs.	3/3	$18,143 [c]
Jan Harris [d], Independent Member	BEc (Hons). An extensive career in the Australian Public Service over 30 years, including as a Deputy Secretary of the Treasury. Experienced nonexecutive director. Broad experience in policy development, governance and risk management.	0/1	-

(a) Remuneration includes superannuation and is GST exclusive

(b) Appointed as member on 1 November 2022

(c) Includes fees for attendance at an induction session

(d) Term as member ended on 31 August 2022

The AOFM's Chief Risk and Assurance Officer attended all audit and risk committee meetings as a permanent advisor.

External observers at audit and risk committee meetings included the Australian National Audit Office (ANAO) and its outsourced provider, Deloitte, and the AOFM's internal auditor PricewaterhouseCoopers. The AOFM CEO and COFO regularly attended meetings as observers.

Risk management

Risk management is integral to the AOFM's activities and is the responsibility of all staff. The ELG has fostered a strong risk-aware culture and supported staff in making appropriate risk-informed decisions. The risk and assurance functions provide guidance on the design and effective implementation of risk treatments and controls.

An ERM framework provided active and transparent management of uncertainty (threats and opportunities). Key reflection points were provided quarterly at ELG meetings and as an established feature of annual corporate planning activities. Risk assessments supported strategy development and decisions on operational activities, including forthcoming significant changes.

The ERM framework captured information to identify emerging risks. This approach was used for risk monitoring at the enterprise level ('top-down', outward focused) and business unit level ('bottom-up', inward focused). Staff understood that risks were to be managed in line with the AOFM risk appetite and tolerance statements.

The ERM framework follows a '3 lines' model.

Line 1: All staff have a responsibility to manage risk, to comply with regulations, standards, and organisational policies, and to employ the AOFM's risk management practices.

Line 2: This includes oversight of the activities of Line 1, and the development and implementation of enterprise-wide risk management processes and policies. The ELG sets risk appetite levels and endorses a risk management strategy at the commencement of the year for the 12 months ahead. The strategy sets out significant risks and the planned actions to manage them. Quarterly review and reporting of risks and their treatments was provided to the ELG and Audit and Risk Committee.

Line 3: This is an independent assessment of the effectiveness of internal controls and risk management, through assurance activities provided by an independent, outsourced internal audit function.

The AOFM's ERM framework is consistent with the Commonwealth Risk Management Policy. The framework was assessed at an overall risk maturity of 'Advanced' (previously 'Embedded') under the 2023 Comcover Risk Management Benchmarking Program. Several initiatives implemented through a risk culture maturity roadmap over the past 2 years were instrumental in progressing our maturity.

The principal risks and uncertainties identified for 2022–23 are outlined in Table 17, together with the actions undertaken during the year to manage them.

Table 17: Key risks identified for 2022–23

Key opportunities	Management actions
Enhancing our human capital	• Provided staff with opportunities for development outside the AOFM to share agency expertise with other relevant parts of government. • Implemented a number of initiatives to increase our reach to potential employees, such as participated in university careers fairs and created a presence on LinkedIn.
Key risks	
Failure to anticipate, recognise, or respond to emerging market trends; or evolving technology trends.	• Maintained a comprehensive financial risk management policy to guide operational resilience. • Maintained an up-to-date awareness of market conditions and outlook relevant to achieving the issuance task and portfolio management aims. • Maintained an ongoing dialogue with market participants and Treasury regarding market conditions, demand for AGS and industry reforms. • Maintained a relevant investor relations program to exchange information and best understand the AGS investor base. • Conducted regular industry engagement in support of the AGS and securitisation markets. • Maintained consistency in announcements and actions to support the AOFM's credibility and transparency in AGS and securitisation markets.
Compromise of one or more of the AOFM's key suppliers severely impacts the AOFM's ability to deliver our operational responsibilities	• Maintained strong, collaborative relationships with our key suppliers. • Monitored service levels and issues arising from key contracts and worked with suppliers to enhance performance outcomes. • Ensured third party business continuity (BC) and disaster recovery arrangements were in place.

In 2023, the AOFM commissioned a risk culture review to assess maturity relative to benchmark results established from 2 previous reviews in 2017 and 2019.

Risk maturity levels for 2023 were comparable to benchmark results, which was a positive outcome given the high rates of staff attrition over the intervening years. The review identified consistent executive leadership messaging supported a strong risk-aware culture, with staff displaying a strong understanding of risk and compliance responsibilities and high levels of personal accountability for managing risk.

The Enterprise Risk and Assurance Group were viewed as a strategic business partner with staff proactively seeking their advice on risk-based decisions. Opportunities for consideration related to fostering a 'speak up' culture and further embedding behavioural risk expectations in our Performance Management Framework.

Fraud prevention and control

The AOFM has minimal appetite for fraud and corruption and has taken comprehensive steps to prevent their occurrence. These include application of a fraud and corruption control plan, which covers processes and systems to ensure regular identification, assessment and treatment of fraud risk vulnerabilities. Mandatory annual fraud awareness training was provided to all staff, including new staff on induction.

We reported on fraud matters to the Treasurer and the Australian Institute of Criminology. No instances of fraud or suspected fraud were identified.

Business continuity

Business continuity management is integral to the AOFM's risk management arrangements because we are an operational agency whose core activities are of a point-in-time critical nature. Business continuity arrangements include multiple levels of redundancy that anticipate situations in which day-to-day business systems or our staff are not available to perform key tasks. The most time-critical functions covered by business continuity arrangements related to issuance tenders and settlements, AGS payment obligations (coupons and maturity redemptions), the AOFM support for budget preparation and changes to documentation or transactions relating to investment funds (ABSF and SFSF).

The business continuity plan was updated during the year and testing was carried out with key third party service providers, including a cyber-attack scenario facilitated by Internal Audit. These arrangements are supplemented by a crisis management framework to enhance business resiliency.

Assurance

The AOFM ERM framework is complemented by an assurance framework that is used to monitor the operation and effectiveness of key internal controls. This framework is modelled on best practice industry standards.

Our compliance with external obligations and internal controls, and our policies and business procedures were monitored through a co-sourced arrangement. This involved in-house second line assurance and compliance activities supplemented by independent third line internal audit services. In 2022–23, assurance and compliance activities provided structured assurance on the effectiveness of the AOFM's governance arrangements, risk management and internal controls. Assurance targets for the year were endorsed by the audit and risk committee as part of setting the annual assurance strategy.

Information and output from enterprise risk management and assurance frameworks supported the CEO's obligations under section 16 of the PGPA Act to maintain appropriate systems of risk oversight and management of internal controls.

Internal audit

The AOFM internal audit service provider is PricewaterhouseCoopers. Internal audit coverage was determined according to professional internal audit standards, with due regard to the AOFM business and risk contexts. The audit and risk committee endorsed the 2022–23 internal audit strategy for CEO approval.

The internal auditor completed 5 reviews in 2022–23, that included an assessment of:

- implementation of and compliance with the Financial Risk Management Policy
- design and operational effectiveness of the AOFM's 2023–24 performance measures against the PGPA requirements
- the AOFM's risk culture maturity and changes relative to benchmark results from the risk culture survey completed in 2018–19

- the AOFM's business continuity response to a cyber-attack scenario
- end-to-end process and controls supporting the debt issuance, confirmation and settlement activities.

In its annual report on internal controls, the internal auditor concluded that the "AOFM continues to have a mature control environment (demonstrated by the nature and type of findings reported)".

Audit recommendations were aimed at enhancing efficiency of the current control environment or clarifying current settings. As at 30 June 2023, 5 internal audit recommendations remained outstanding and are being addressed in accordance with agreed timelines.

Significant non-compliance issues with finance law

There were no significant instances of non-compliance with the finance law reported to the responsible minister in 2022–23.

External scrutiny

In September 2022, the AOFM was advised that the Auditor-General would be conducting a performance audit of the management of the Australian Government's debt, pursuant to section 17 of the *Auditor-General Act 1997.* The ANAO proposes to examine how the AOFM has structured the debt and the governance framework underpinning the management of that debt.

The performance audit was in progress at 30 June 2023, with tabling of the report expected in February 2024.

B. OUR PEOPLE

The AOFM relies on a highly skilled, predominantly technical, workforce with a diverse skillset. Skills are focused primarily on finance, risk management, accounting, economics, and data management. Our officials maintain appropriate market and economic knowledge and tap information networks relevant to global financial markets.

Around 92% of the AOFM's staff have formal tertiary qualifications, with 56% holding higher degrees and 23% holding double degrees. Throughout the year, around 27% of employees developed their skills further by undertaking external training.

Workforce planning

Staff movements have delayed the development of the AOFM's new Strategic Workforce Plan, which is now planned for 2023–24. Action on a skills database is also planned for the 2023–24 period.

Recruitment yielded strong results with successful candidates being highly qualified and very capable. While our recruitment is targeting the skills and experience required for the AOFM's roles, it is also supporting a high performing workplace that can meet current and emerging challenges.

We have taken action to remove any unconscious bias from our recruitment processes and have actively sought opportunities to increase our appeal to a more diverse applicant pool.

The AOFM maintains a clear understanding of its workforce composition and regularly acts on the need for professional development.

Training and development

In 2022–23, except for those who only very recently joined the organisation, all staff participated in some form of external training or development opportunity. Just over 40% of staff engaged with individually tailored programs, including individual coaching, leadership programs, and financial markets and other technically related courses.

The AOFM provided access to an online portal for virtual training and development through a learning management system. This gives access for all staff to LinkedIn Learning, Skillsoft, and GO1 platforms. A wide range of content is available, from step-by-step guides to software applications to leadership and project management.

Additional support is provided through funding of job-relevant professional memberships to give access to professional forums, and the training and industry updates provided by these bodies. Payments to external providers for training and development during the period averaged $3,370 per full time equivalent (FTE) employee, a 21% increase in investment in this area on last year's expenditure.

Employment arrangements

AOFM Enterprise Agreement

The *AOFM Enterprise Agreement 2015–2018* was approved by the Fair Work Commission and came into effect on 17 July 2015 and continues to apply until a new Enterprise Agreement is approved.

The CEO authorised adjustments to the AOFM pay rates through determinations under subsection 24(1) of the PS Act. Rates at the end of the reporting period were set by a determination made with effect from 18 July 2021.

Table 18: Employment arrangements in 2022–23 (headcount)

Employment arrangement	SES[a] officer	Non-SES officer	Total
Determinations under subsection 24(1) of the *Public Service Act 1999*	1	48	49
Enterprise agreement	0	48	48
Total	**1**	**48**	**49**

(a) SES stands for 'senior executive service'.

Remuneration of Staff

All non-SES staff had terms and conditions set during 2022–23 by the *AOFM Enterprise Agreement 2015–2018* and all staff determinations on salary rates made under subsection 24(1) of the *Public Service Act* by the CEO.

The CEO's terms and conditions are set by the Secretary to the Treasury through a determination made under subsection 24(1) of the PS Act. The current determination includes a salary increase as at 18 July 2023.

Table 19: The AOFM salary ranges by classification (minimum/maximum) for 2022–23

APS classification	Minimum	Maximum
SES 3	332,785	398,320
EL 2	196,850	330,945
EL 1	135,092	168,865
APS 6	101,258	126,573
APS 5	82,847	103,559
APS 4	76,615	85,128
APS 3	68102	72359
APS 2	58,226	64,696
APS 1	46,531	54,992
Minimum/Maximum range	**44,949**	**398,320**

Individual remuneration within the range for a classification depends on performance ratings. We conducted formal performance appraisals for all staff during the year. Performance appraisals combine what is achieved (outputs) with how those results are obtained (behaviours). Performance-linked bonuses are not available.

Non-salary benefits provided to employees principally comprise superannuation and support for professional development through study assistance (financial and time in lieu), short courses, and payment of job relevant professional society membership fees. All staff have laptop computers, which facilitates home-based working. A mobile phone or tablet will be provided where there is a business need.

Work health and safety

The Executive Leadership Group monitored the emergence of notable work health and safety issues.

The AOFM has one Health and Safety Representative who assists staff in accordance with the *Work Health and Safety Act 2011* (WHS Act).

All staff were offered flu vaccinations prior to the start of the 2023 flu season and 56% of staff took advantage of this service.

Counselling and related support is available under an Employee Assistance Program provided by Benestar Group. Additional online resources are provided to all staff to assist with safety, health, and wellbeing promotion.

There were no compensable injury claims or notifiable incidents in 2022–23.

There were no notices or investigations under Part 10 of the WHS Act.

Disability reporting mechanism

Australia's Disability Strategy 2021–2031 (the Strategy) is the overarching framework for inclusive policies, programs and infrastructure that will support people with disability to participate in all areas of Australian life. The Strategy sets out where practical changes will be made to improve the lives of people with disability in Australia. It acts to ensure the principles underpinning the United Nations Convention on the Rights of Persons with Disabilities are incorporated into Australia's policies and programs that affect people with disability, their families and carers.

All levels of government have committed to deliver more comprehensive and visible reporting under the Strategy. A range of reports on progress of the Strategy's actions and outcome areas will be published and available at https://www.disabilitygateway.gov.au/ads.

Disability reporting is included the Australian Public Service Commission's State of the Service reports and the APS Statistical Bulletin. These reports are available at http://www.apsc.gov.au.

The AOFM workforce

As at 30 June 2023, the AOFM employed 49 staff (headcount), with an FTE figure of 47.5. The following tables provide detailed breakdowns for 2022–23 (as at 30 June 2023) and 2021–22 (as at 30 June 2022).

Please note, as a small workforce, the AOFM was only represented by those identifying as male or female throughout the 2022–23 financial year, and as such, these are the only options included in the below tables.

Table 20: APS ongoing employees by classification (headcount)

	Male			Female			Total
	Full time	Part time	Total	Full time	Part time	Total	
2022–23							
SES 3	0	0	**0**	1	0	**1**	**1**
SES 2	0	0	**0**	0	0	**0**	**0**
SES 1	0	0	**0**	0	0	**0**	**0**
EL 2	6	0	**6**	2	0	**2**	**8**
EL 1	9	0	**9**	5	2	**7**	**16**
APS 6	6	0	**6**	3	0	**3**	**9**
APS 5	5	0	**5**	4	1	**5**	**10**
APS 4	2	0	**2**	1	0	**1**	**3**
APS 3	1	0	**1**	1	0	**1**	**2**
Total	**29**	**0**	**29**	**17**	**3**	**20**	**49**
2021–22							
SES 3	1	0	**1**	0	0	**0**	**1**
SES 2	0	0	**0**	0	0	**0**	**0**
SES 1	0	0	**0**	0	0	**0**	**0**
EL 2	6	0	**6**	2	0	**2**	**8**
EL 1	8	0	**8**	1	2	**3**	**11**
APS 6	2	0	**2**	2	1	**3**	**5**
APS 5	8	0	**8**	5	2	**7**	**15**
APS 4	0	0	**0**	1	0	**1**	**1**
APS 3	0	0	**0**	1	0	**1**	**1**
Total	**25**	**0**	**25**	**12**	**5**	**17**	**42**

Note: As a small workforce, the AOFM was only represented by those identifying as male or female throughout the 2022–23 financial year, and therefore these are the only options included in the above table.

Table 21: APS non-ongoing employees by classification (headcount)

			Male			Female	Total
	Full time	Part time	Total	Full time	Part time	Total	
2022–23							
SES 3	0	0	**0**	0	0	**0**	**0**
SES 2	0	0	**0**	0	0	**0**	**0**
SES 1	0	0	**0**	0	0	**0**	**0**
EL 2	0	0	**0**	0	0	**0**	**0**
EL 1	0	0	**0**	0	0	**0**	**0**
APS 6	0	0	**0**	0	0	**0**	**0**
APS 5	0	0	**0**	0	0	**0**	**0**
APS 4	0	0	**0**	0	0	**0**	**0**
APS 3	0	0	**0**	0	0	**0**	**0**
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2021–22							
SES 3	0	0	**0**	0	0	**0**	**0**
SES 2	0	0	**0**	0	0	**0**	**0**
SES 1	0	0	**0**	0	0	**0**	**0**
EL 2	0	0	**0**	0	0	**0**	**0**
EL 1	1	0	**1**	0	1	**1**	**2**
APS 6	0	0	**0**	0	0	**0**	**0**
APS 5	0	0	**0**	0	0	**0**	**0**
APS 4	0	0	**0**	0	0	**0**	**0**
APS 3	0	0	**0**	0	0	**0**	**0**
Total	**1**	**0**	**1**	**0**	**1**	**1**	**2**

Note: As a small workforce, the AOFM was only represented by those identifying as male or female throughout the 2022–23 financial year, and therefore these are the only options included in the above table.

Table 22: All ongoing employees by state in 2022–23 (headcount)

	Male			Female			Total
	Full time	Part time	**Total**	Full time	Part time	**Total**	
2022–23							
NSW	3	0	**3**	1	0	**1**	**4**
QLD	0	0	**0**	1	0	**1**	**1**
SA	0	0	**0**	0	0	**0**	**0**
TAS	0	0	**0**	0	0	**0**	**0**
VIC	0	0	**0**	0	0	**0**	**0**
WA	0	0	**0**	0	0	**0**	**0**
ACT	26	0	**26**	15	3	**18**	**44**
NT	0	0	**0**	0	0	**0**	**0**
Others	0	0	**0**	0	0	**0**	**0**
Total	**29**	**0**	**29**	**17**	**3**	**20**	**49**
2021–22							
NSW	1	0	**1**	0	0	**0**	**1**
QLD	0	0	**0**	0	0	**0**	**0**
SA	0	0	**0**	0	0	**0**	**0**
TAS	0	0	**0**	0	0	**0**	**0**
VIC	0	0	**0**	0	0	**0**	**0**
WA	0	0	**0**	0	0	**0**	**0**
ACT	24	0	**24**	12	5	**17**	**41**
NT	0	0	**0**	0	0	**0**	**0**
Others	0	0	**0**	0	0	**0**	**0**
Total	**25**	**0**	**25**	**12**	**5**	**17**	**42**

Note: As a small workforce, the AOFM was only represented by those identifying as male or female throughout the 2022–23 financial year, and therefore these are the only options included in the above table.

Table 23: All non-ongoing employees by state in 2022–23 (headcount)

	Male			Female			Total
	Full time	Part time	**Total**	Full time	Part time	**Total**	
2022–23							
NSW	0	0	**0**	0	0	**0**	**0**
QLD	0	0	**0**	0	0	**0**	**0**
SA	0	0	**0**	0	0	**0**	**0**
TAS	0	0	**0**	0	0	**0**	**0**
VIC	0	0	**0**	0	0	**0**	**0**
WA	0	0	**0**	0	0	**0**	**0**
ACT	0	0	**0**	0	0	**0**	**0**
NT	0	0	**0**	0	0	**0**	**0**
Others	0	0	**0**	0	0	**0**	**0**
Total	0	0	**0**	0	0	**0**	**0**
2021–22							
NSW	1	0	**1**	0	0	**0**	**1**
QLD	0	0	**0**	0	0	**0**	**0**
SA	0	0	**0**	0	0	**0**	**0**
TAS	0	0	**0**	0	0	**0**	**0**
VIC	0	0	**0**	0	0	**0**	**0**
WA	0	0	**0**	0	0	**0**	**0**
ACT	0	0	**0**	0	1	**1**	**1**
NT	0	0	**0**	0	0	**0**	**0**
Others	0	0	**0**	0	0	**0**	**0**
Total	**1**	**0**	**1**	**0**	**1**	**1**	**2**

Note: As a small workforce, the AOFM was only represented by those identifying as male or female throughout the 2022–23 financial year, and therefore these are the only options included in the above table.

Secondments

During 2022–23, one employee was seconded to the Department of Finance. This commenced during 2021–22, until August 2022.

Employees who identify as Indigenous Australians

The AOFM did not have any staff who identified as Indigenous Australians during 2022–23. This has not changed since the last reporting period.

Changes to senior management

The AOFM's former CEO, Rob Nicholl, resigned in September 2022**.** Following a competitive process, Anna Hughes was appointed CEO and commenced with the AOFM in January 2023.

Other staffing changes

Twelve ongoing employees were recruited during 2022–23 and 10 ongoing employees left during the year. Staff departures represented around 24% of average staffing levels in 2022–23. Although this represents a high level of turnover, this is a reduction from the 36% figure of 2021–22. The figure for 2022–23 is significantly higher than the 10-year average for the AOFM's turnover (16.2%).

The retention rate for 2022–23 was 76%, which remains below the average annual retention rate of 83% over the last 5 years. With a very low annual retention figure for 2021–22 (the lowest since 2006–07), the AOFM is taking steps to improve retention. Our ability to deliver our key purposes has not been impacted with retention of key staff, limited key person dependency, and well-established business procedures and documentation.

Remuneration of key management personnel and highly paid staff

Key management personnel (KMP) are those individuals with authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly. The AOFM's CEO, the Secretary to the Treasury and the Treasurer have been determined to be key management personnel for the AOFM. The AOFM CEO is appointed by the Secretary to the Treasury and is the only KMP remunerated by the AOFM.

In 2022-23, the AOFM had 6 individuals in the position of the AOFM CEO; 2 substantive and 4 acting. Former CEO Rob Nicholl resigned his position on 23 September 2022. On 16 January 2023, Anna Hughes commenced her appointment as CEO. During the intervening period of 73 business days, 4 of the AOFM's staff acted in the CEO role.

Remuneration for the AOFM CEO is governed by the APSC's Executive Remuneration Management Policy and Treasury's SES performance framework. Executive remuneration is reported in accordance with the *Public Governance, Performance and Accountability Rule 2014.*

Key Management Personnel

Table 24: Remuneration for KMP

		Short term benefits ($)			Post-employment ($)	Other long-term		Termination benefits ($)	Total ($)
Name	**Position**	**Base salary and annual leave**	**Bonus**	**Other benefits**	**Super**	**Long service leave**	**Other**	**Termination benefits**	**Total ($)**
Anna Hughes	CEO	168,809	-	-	32,012	3,632	-	-	**204,453**
Rob Nicholl	CEO	92,706	-	-	11,211	2,488	-	-	**106,405**
Michael Bath	Acting CEO	27,279	-	-	4,697	453	-	-	**32,429**
Erin Martin	Acting CEO	26,414	-	-	2,270	438	-	-	**29,122**
Brad Parry	Acting CEO	8,132	-	-	1,166	135	-	-	**9,433**
Matt Wheadon	Acting CEO	19,339	-	-	1,659	320	-	-	**21,318**

The CEO's remuneration conditions are established by the Secretary of the Treasury. AOFM does not have any SES staff other than KMP.

In accordance with the *Public Governance, Performance and Accountability Rule 2014*, the AOFM is required to report information about remuneration for highly paid staff other than KMP. Remuneration for other highly-paid staff is reported in accordance with the Rule. Remuneration for other highly paid staff is established by the AOFM's enterprise agreement.

Other highly-paid staff

Table 25: Remuneration for highly paid staff

		Short term benefits ($)			Post-employment ($)	Other long-term		Termination	Total ($)
Remuneration band	Number	Average base salary and annual leave	Average bonus	Average other benefits	Average super	Average long service leave	Average other benefits	Average termination benefits	Total ($)
245,001 to 270,000	2	213,749	-	-	35,839	7,906	-	-	**257,494**
270,001 to 295,000	4	235,398	-	-	38,997	7,251	-	-	**281,646**
295,001 to 320,000	1	240,656	-	-	45,691	12,086	-	-	**298,433**
320,001 to 345,000	1	279,678	-	-	53,159	10,075	-	-	**342,912**
370,001 to 395,0000	1	307,321	-	-	56,984	10,434	-	-	**374,739**

C. PURCHASING AND PROCUREMENT

Under the PGPA Act, the AOFM CEO is responsible for the proper use of public resources by the AOFM. This responsibility includes developing policies, procedures, and systems for conducting procurements.

During the period, the AOFM's purchasing activities were consistent with, and reflected the principles of, the *Commonwealth Procurement Rules* (CPRs). These were applied to the AOFM's activities through the *Accountable Authority Instructions* (AAIs) and supporting internal policies and procedures.

The AOFM reported data on AusTender for contracts awarded with a value of $10,000 or higher. The AOFM Procurement Plan, designed to provide suppliers with early attention to potential procurement opportunities, was published on the AusTender website.[12] The plan was updated as required.

Reportable consultancy contracts

During 2022–23, one new reportable consultancy contract was entered into by the AOFM, involving total actual expenditure of $40,162. One reportable consultancy contract was active during the period, involving total actual expenditure of $753,578. This is summarised in Table 26.

This annual report contains information about actual expenditure on reportable consultancy contracts. Information on the value of reportable consultancy contracts is available on the AusTender website.[13]

The AOFM engages consultants where it requires specialist expertise or when independent research, review or assessment is required.

Prior to engaging consultants, we take into account the skills, experience and resources required for the task, the skills available internally, and the cost-effectiveness of engaging external expertise.

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12 The procurement plan is available at www.tenders.gov.au.

13 Information on the value of reportable consultancy contracts is available at www.tenders.gov.au.

Decisions to engage consultants are made in accordance with the PGPA Act and related rules, including the CPRs, and relevant internal policies.

Table 26: Consultancy contracts

Number of consultancy contracts	2022–23
New contracts	1
Ongoing contracts	1
Expenditure (including GST)	
New contracts	$40,162
Ongoing contracts	$753,578

Additional information

Table 27 lists the names of the organisations that during 2022–23 received one or more amounts under one or more consultancy contracts, and the total amount each organisation received.

Table 27: Additional information for consultancy contracts

Name of organisation	Amount received
Challenger Investment Partners Limited	$753,578
Australian Government Solicitor	$40,162

Reportable non-consultancy contracts

During 2022–23, 20 new reportable non-consultancy contracts were entered into, involving total actual expenditure of $24,908,988. In total, 49 reportable non-consultancy contracts were active during the period, involving actual expenditure of $27,677,446. This is summarised in Table 28.

This annual report contains information about actual expenditure on reportable contracts. Information on the value of reportable contracts is available on the AusTender website.[14]

14 Information on the value of reportable contracts is available at www.tenders.gov.au.

Table 28: Non-consultancy contracts

Number of consultancy contracts	2022–23
New contracts	20
Ongoing contracts	29
Expenditure (including GST)	
New contracts	$24,908,988
Ongoing contracts	$2,768,458

Additional information

Table 29 lists the names of the organisations who received the 5 largest shares of the entity's total expenditure on non-consultancy contracts during the period, and the name of any organisation that, during the period, received one or more amounts under one or more non-consultancy contracts equal in total to at least 5% of AOFM's total expenditure on non-consultancy contracts during the period, and the total amount the organisation received.

All payments made to suppliers identified in the Table 29 pertain to the syndicated issuance of AGS in 2022–23.

Table 29: Additional information for non-consultancy contracts

Name of organisation	Amount received	% of total expenditure
Australia and New Zealand Banking Group Limited	$6,160,000	22
Commonwealth Bank of Australia	$3,080,000	11
Deutsche Bank AG Australia	$3,080,000	11
JP Morgan Securities Australia Limited	$3,080,000	11
National Australia Bank	$3,080,000	11
UBS AG Australia	$3,080,000	11
Westpac Banking Corporation	$3,080,000	11

ANAO Access Clauses and Exempt Contracts

No contracts in excess of $100,000 were entered into during the reporting period that did not provide for the Auditor-General to have access to the contractor's premises.

No contract or standing offer has been exempted from being published in AusTender on the basis it would disclose exempt matters under the *Freedom of Information Act 1982* (FOI Act).

Procurement initiatives to support small business

The AOFM supports small business participation in the Commonwealth Government procurement market. SME and small enterprise participation statistics are available on the Department of Finance's website.[15]

Consistent with paragraph 5.5 of the CPRs, the AOFM's procurement practices provide appropriate opportunities for SMEs to compete and ensure SMEs are not unfairly discriminated against.

We recognise the importance of ensuring small businesses are paid on time. The results of the Survey of Australian Government Payments to Small Business are available on the Treasury website.[16]

Advertising campaigns and market research

During 2022–23, the AOFM did not conduct any advertising campaigns. In addition, we did not conduct market research in relation to an advertising campaign.

Grants

Under the *Financial Agreement Act 1994* (FA Act), the Commonwealth is required to contribute to the Debt Retirement Reserve Trust Account (DRRTA) to assist the New South Wales and Victorian governments to redeem maturing debt on

15 Procurement statistics for SMEs are available at https://www.finance.gov.au/government/procurement/statistics-australian-government-procurement-contracts-

16 Pay on-time survey is available at www.treasury.gov.au.

allocation to them. Monies standing to the credit of this account are held for the purposes prescribed by the FA Act.

Total amounts paid by the Commonwealth into the DRRTA for 2022–23 were $5,066.

D. FREEDOM OF INFORMATION

Entities subject to the FOI Act are required to publish information to the public as part of the Information Publication Scheme (IPS). Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. In 2022–23, the AOFM worked with the Treasury on one FOI request.

The AOFM published an agency plan showing what information is published in accordance with the IPS requirements, including material relevant to us, and is accessible from the AOFM website.[17]

E. FINANCIAL PERFORMANCE

The PGPA Act requires the production of annual financial statements for the AOFM and their audit by the ANAO. The AOFM is required to prepare separate financial reports for its 'administered' and 'departmental' activities.

Administered activities are those activities that we do not control but for which we have management responsibility on behalf of the government, and are subject to prescriptive rules or conditions established by legislation or government policy to achieve government outcomes. Departmental activities are those activities that the AOFM has control over.

The AOFM's 2022–23 financial statements are presented in Part 4 of this report. The Auditor-General has issued an unmodified audit opinion in relation to the financial statements.

17 The AOFM's IPS plan is available at https://www.aofm.gov.au/about/access-information/information-publication-scheme

Administered activities

In 2022–23, the AOFM administered one program on behalf of government. Administered expenses totalled $22.241 billion (2021–22: $18.551 billion), comprising primarily of interest expenses of $22.218 billion (2021–22: $18.502 billion) on AGS.

While bond markets sold off and experienced volatility during 2022–23, trading conditions in the AGS market remained liquid, deep and functional. In response to an environment of higher inflation and tightening monetary policy the interest rate environment in 2022–23 was higher than that experienced in 2021–22.

- In yield terms, gross interest costs incurred on the debt portfolio were 2.44% in 2022–23 (2021–22: 2.10%).
- The higher inflationary environment in 2022–23 as compared to 2021–22 has seen interest costs on TIBs rise significantly to $4.1 billion or 8.38% (2021–22: $2.166 billion or 4.55%).

In 2022–23 the AOFM did not conduct wholesale buybacks of AGS from the secondary market. In 2021–22, the AOFM repurchased $1.7 billion in face value terms of the February 2022 TIB series coinciding with the launch by syndication of the November 2032 TIB series.

During 2022–23, the value of AGS debt on issue (in face value terms) decreased by $5 billion (from $895 billion to $890 billion). Treasury Bonds remain the core financing instrument used by the AOFM.

The higher interest rate environment resulted in an increase in bond yields, and in turn a favourable revaluation to the fair value (synonymous with market value) of the debt portfolio as at 30 June 2023. An unrealised fair value revaluation gain of $13 billion was recorded for 2022–23.

The AOFM holds cash balances (deposits with the RBA) to ensure it can, at all times, meet government outlay requirements.

Departmental activities

The AOFM reported an operating surplus on departmental activities of $2.6 million for 2022–23 (2021–22: $3.4 million). This comprised revenue of $16.6 million (2021–22: $16.8 million) and expenses of $14.0 million (2021–22: $13.4 million).

Employee expenses and supplier expenses increased in 2022–23 by $0.4 million and $0.2 million respectively. The AOFM's average staffing level fell by one in 2022–23 as compared to 2021–22. In addition, departmental expenses arising from the management of the SFSF and the ABSF fell in 2022–23.

During 2022–23 the AOFM commissioned independent revaluations of its property, plant and equipment assets. The revaluation of the AOFM's fit out asset (valued on a gross replacement cost basis) and makegood provision (being an estimate of the restoration costs to return the leasehold property to the landlord on lease expiry) were material. A net revaluation gain of $0.4 million was recognised and booked to an asset revaluation reserve.

The AOFM reported a sound net worth and liquidity position as at 30 June 2023, with net assets of $31.7 million (30 June 2022: $30.7 million). This was represented by total assets of $40.4 million (30 June 2022: $39.1 million) and total liabilities of $8.7 million (30 June 2022: $8.4 million).

As at 30 June 2023, the AOFM had unspent annual appropriations totalling $33.9 million (30 June 2022: $32.6 million). These are available to settle liabilities as and when they fall due and for future asset replacements and improvements. Approval from the Minister for Finance would be required to use the unspent appropriations to fund operating losses. Annual appropriations are repealed 2 years after the financial year in which they are first available to be used (for example: the 2022–23 annual appropriations will repeal for unexpended amounts on 1 July 2025).

Table 30: Agency resource statement and resources for outcomes

Outcome 1: The advancement of macroeconomic growth and stability and effective operation of financial markets, through issuing debt, investing in financial assets, and managing debt, investments, and cash for the Australian Government			
	Budget (a)	Actual Expenses	Variation
	2022–23	2022–23	
	$'000	**$'000**	**$'000**
Program1.1: Australian Office of Financial Management			
Departmental expenses			
Departmental appropriation and other receipts	13,703	13,185	518
Expenses not requiring appropriation in the Budget year	813	864	51
Administered expenses before re-measurements			
Expenses not requiring appropriation (b)	1,360	-	1,360
Special appropriations expenses			
Commonwealth Inscribed Stock Act 1911	22,152,069	22,242,103	(90,034)
Australian Business Securitisation Fund Act 2019	–	–	–
Structured Finance Support (Coronavirus Economic Response Package) Act 2020	-	-	-
Financial Agreement Act 1994	6	10	(4)
Loans Securities Act 1919	-	209	(209)
Total expenses for program1.1	**22,167,951**	**22,256,371**	**(88,420)**
Average staffing level (number)	**46**	**42**	**4**

(a) The Budget figure for 2022–23 is the estimated actual 2022–23 expenses as reported in Table 2.1.1 of the 2023–24 Portfolio Budget Statements.

(b) Expenses not requiring appropriation represents expected credit loss expenses on investments in structured finance securities and accrual losses on repurchase of debt prior to maturity.

Note in the Budget papers – expected credit loss expenses are reported against expenses, whilst in the Annual Financial Statements they are reported as an offset to interest revenue.

Table 31: The AOFM's resource statement

	Note	Actual available appropriation	Net payments made	Appropriations extinguished	Balance
		2022–23 $'000	2022–23 $'000	2022–23 $'000	2022–23 $'000
Ordinary annual services					
Departmental appropriation(a)(b)		49,579	13,194	177	36,208
Receipts from other sources (s74) (c)		106	-	-	106
Total departmental		**49,685**	**13,194**	**177**	**36,314**
Administered expenses					
Total administered		**-**	**-**	**-**	**-**
Total ordinary annual services	**A**	**49,685**	**13,194**	**177**	**36,314**
Other services					
Departmental non-operating		-	-	-	-
Total other services	**B**	**-**	**-**	**-**	**-**
Total available annual appropriations (A+B)		**49,685**	**13,194**	**177**	**36,314**
Special appropriations – operating					
Commonwealth Inscribed Stock Act 1911		22,707,763	22,707,763	-	-
Financial Agreement Act 1994		10	10	-	-
Loans Securities Act 1919		209	209	-	-
Subtotal		**22,707,982**	**22,707,982**	**-**	**-**
Special appropriations – investing and financing					
Commonwealth Inscribed Stock Act 1911		182,388,435	182,388,435	-	-
Loans Securities Act 1919		789,047	789,047		

	Note	Actual available appropriation	Net payments made	Appropriations extinguished	Balance
		2022–23 $'000	2022–23 $'000	2022–23 $'000	2022–23 $'000
Subtotal		**183,177,482**	**183,177,482**	**-**	**-**
Total special appropriations	**C**	**205,885,464**	**205,885,464**	**-**	**-**
Total appropriations excluding special accounts (A + B + C)		**205,935,149**	**205,898,658**	**177**	**36,314**
Debt Retirement Reserve Trust		195	32	-	163
Structured Finance Support Fund (d)		14,782,889	22,892	-	14,759,997
Australian Business Securitisation Fund (e)		1,536,762	320,341	-	1,216,421
Total Special Accounts	**D**	**16,319,846**	**343,265**	**-**	**15,976,581**
Total net resourcing and payments for the AOFM (A + B + C + D)		**222,254,995**	**206,241,923**	**177**	**16,012,895**

(a) Actual available appropriation comprises *Supply Act (No.1) 2022–23* and *Supply Act (No.3) 2022–23* plus carried forward appropriation balances at 1 July 2022.

(b) Includes capital budget appropriation for 2022–23 of $0.377 million.

(c) Receipts received under section 74 of the *Public Governance, Performance and Accountability Act 2013*.

(d) Structured Finance Support Fund Special Account was established in March 2020. The special account received its statutory funding of $15 billion on 25 March 2020.

(e) Australian Business Securitisation Fund Special Account was established in April 2019. The special account received its first credit of funding of $250 million on 1 July 2019. The special account received its second credit of funding of $250 million on 1 July 2020. Additional funding, each of $500 million occurred on 1 July 2021 and 1 July 2022.

F. AUSTRALIAN PUBLIC SERVICE NET ZERO 2030

Greenhouse Gas Emissions Inventory

APS Net Zero 2030 is the Australian Government's policy for the Australian Public Service to reduce its greenhouse gas emissions to net zero by 2030, and to transparently report on its emissions.

The policy has been designed to align with Australia's international commitments and contribute to the achievement of Australia's Paris Agreement targets.

In November 2022 Australia joined the Net Zero Government Initiative at the climate change conference held in Egypt. The initiative commits countries to achieving net zero emissions from government operations and underscores the leadership role of governments in catalysing economy-wide climate action. Each Net Zero Government Initiative participant is developing a roadmap (by COP28) to outline their pathway for achieving the net zero commitment.

The APS will achieve net zero by actively reducing emissions from government operations and by using offsets.

Commonwealth entities are required to publicly report on their greenhouse gas emissions from their operations, commencing with their 2022–23 emissions in that year's annual report. To ensure consistency across the Commonwealth, entities are required to use the emissions reporting tools and guidance developed by the Department of Finance APS Net Zero Unit for calculating and reporting their emissions.

Table 32: Greenhouse Gas Emissions Inventory – location-based method 2022–23 (a)

Emission Source	**Scope 1 kg CO_2-e** (emissions originating from sources owned or controlled by the AOFM)	**Scope 2 kg CO_2-e** (emissions associated with the consumption of purchased energy)	**Scope 3 kg CO_2-e** (emissions that are indirect and occur throughout the value chain) (b)	Total kg CO_2-e
Electricity (location-based method) (c)	N/A	-	-	-
Natural gas (d)	-	N/A	-	-
Fleet vehicles (e)	-	N/A	-	-
Domestic flights	N/A	N/A	15,216	15,216
Other energy (f)	-	N/A	-	-
Total kg CO_2-e	-	-	**15,216**	**15,216**

Note: the table above presents emissions related to electricity usage using the location-based accounting method. CO_2-e = Carbon Dioxide Equivalent.

(a) The emissions presented in the above Table are calculated using the location-based accounting methodology provided to Commonwealth Entities by the Department of Finance APS Net Zero Unit.

(b) Scope 3 emissions are the most challenging to identify and measure. Currently, the Commonwealth is limiting its scope 3 reporting to emissions from domestic business travel.

(c) The AOFM is wholly located within tenancies managed by the Department of the Treasury (Treasury). The AOFM's electricity emissions and emissions from the transmission and distribution of electricity are recorded as a part of the Treasury emissions figures and appear in the Treasury 2022–23 Annual Report.

(d) The AOFM's Natural Gas emissions are recorded as part of Treasury's emission figures and appear in the Treasury 2022–23 Annual Report.

(e) The AOFM does not own or control fleet vehicles.

(f) AOFM has measured the emissions from international travel undertaken during 2022–23. These figures do not form part of the Net Zero Reporting requirements for the 2022–23 financial year, and accordingly are not included in the above Table. The Scope 3 emissions from international travel for 2022–23 was 84,006 (kg CO_2-e), including supply chain emission sources.

For more information on APS Net Zero 2030 please visit: https://www.finance.gov.au/government/aps-net-zero-emissions-2030.

PART 4: ANNUAL FINANCIAL STATEMENTS

Statement by the Chief Executive Officer and Chief Operating and Finance Officer

In our opinion, the attached financial statements for the year ended 30 June 2023 comply with subsection 42 (2) of the *Public Governance, Performance and Accountability Act 2013*, and are prepared from properly maintained financial records as required by subsection 41 (2) of the *Public Governance, Performance and Accountability Act 2013*.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Australian Office of Financial Management will be able to pay its debts as and when they fall due.

Signed

A Hughes

Chief Executive Officer

24 August 2023

Signed

P Raccosta

Chief Operating and Finance Officer

24 August 2023

Objectives of the AOFM

The Australian Office of Financial Management (AOFM) is a listed entity under the *Public Governance, Performance and Accountability Act 2013*. The AOFM is a not-for-profit Australian Government entity and has no separate legal existence from the Commonwealth of Australia.

These Financial Statements cover the AOFM as an administrative entity of the Commonwealth of Australia and are for the reporting period 1 July 2022 to 30 June 2023. They are required by section 42 of *the Public Governance, Performance and Accountability Act 2013* and are general purpose financial statements prepared on a going concern basis.

As the sovereign debt manager for the Australian Government, the AOFM is responsible for issuing and managing Australian Government debt, managing the government's cash balances, and investing surplus cash in low-risk financial assets. In April 2019 and March 2020, the AOFM commenced operating the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF) respectively.

The AOFM has the following 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 which supports a well functioning Australian Government Securities (AGS) market; and
- meet the priorities of the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF).

Further information on the AOFM's key activities necessary to support its purposes and associated performance measures is available in Part 2 of the Annual Report.

Legislation

The AOFM's borrowing and portfolio management activities comply with applicable legislative requirements. A number of legislative mechanisms govern these activities and are described in Part 3 of the Annual Report.

Administered Accounts

> Administered items are identified separately from departmental items in the financial statements by shading.

Administered assets, liabilities, revenue, and expenses are those items that an entity does not control but for which it has management responsibility on behalf of the government, and which are subject to prescriptive rules or conditions established by legislation, or Australian Government policy. These items include debt issued to finance the government's fiscal requirements, investments for policy purposes and investments of funds surplus to the government's immediate financing needs.

Schedule of comprehensive income

Administered schedule of comprehensive income ($ millions)
for the period ended 30 June 2023

	Notes	2023	2022
EXPENSES			
Interest expense:			
Treasury Bonds	**2**	17,314	16,314
Treasury Indexed Bonds	**3**	4,081	2,166
Treasury Notes	**4**	823	22
Sub-total		**22,218**	**18,502**
Other expenses:			
Debt repurchases		..	34
Supplier expenses		23	15
Sub-total		23	49
Total expenses		**22,241**	**18,551**
INCOME			
Interest revenue:			
Loans to State and Territory Governments		79	83
Cash and deposits	**6**	1,716	110
Structured finance securities	**7**	44	39
Total income		**1,839**	**232**
(Deficit) before re-measurements		**(20,402)**	**(18,319)**
RE-MEASUREMENTS (net market revaluation)			
Treasury Bonds		11,983	107,983
Treasury Indexed Bonds		1,454	7,937
Treasury Notes		(2)	11
Total re-measurements		**13,435**	**115,931**
Surplus (deficit)		**(6,967)**	**97,612**

The above schedule should be read in conjunction with the accompanying notes.

Interest expense and interest revenue are determined using the effective interest method.

'Debt repurchases' represent the total proceeds paid from repurchasing debt prior to maturity *less* the amortised cost carrying value of the debt using the effective interest method. The AOFM conducts these transactions at market rates.

The category 'Deficit before re-measurements' records a financial result that is consistent with an accrual (or amortised cost) basis of accounting under the historic cost accounting convention. This is most relevant to the AOFM's role in managing the debt portfolio, which is predominately issued and held to maturity, and where portfolio restructuring is performed for debt management purposes, rather than for profit making purposes.

The category 'Re-measurements' provides information on the unrealised changes in the market valuation of the portfolio of administered financial assets and financial liabilities (which are carried at fair value through profit or loss) during the financial year. This is an implicit cost or revenue and relevant for assessing changes in financial risk exposures and changes to the value of transactions managed from year to year. The revaluation effect will net to zero over the life of a financial instrument.

Schedule of assets and liabilities

Administered schedule of assets and liabilities ($ millions)

as at 30 June 2023

	Notes	2023	2022
LIABILITIES			
Interest bearing liabilities at fair value:			
Treasury Bonds	**2**	749,704	775,775
Treasury Indexed Bonds	**3**	49,493	45,224
Treasury Notes	**4**	26,345	27,451
Interest bearing liabilities at amortised cost:			
Other debt		6	6
Other liabilities:			
Loan commitments	**5**	..	1
Total liabilities		**825,548**	**848,457**
FINANCIAL ASSETS			
Cash held in the OPA		1	1
Cash held in the cash management account (a)	**6**	82,207	86,085
Assets at amortised cost:			
Securities issued but not settled	**4**	–	2,490
Structured finance securities	**7**	659	803
Loans to State and Territory Governments	**8**	1,252	1,333
Accrued interest on cash management account	**6**	293	53
Total assets		**84,412**	**90,765**
Net assets (liabilities)		**(741,136)**	**(757,692)**

The above schedule should be read in conjunction with the accompanying notes.

(a) Cash held in the cash management account contains balances of the ABSF and SFSF special accounts. Refer to *Note 10: Appropriations* for detailed disclosure of ABSF and SFSF special account balances.

The Treasurer has issued a direction under the *Commonwealth Inscribed Stock Act 1911* permitting the AOFM to borrow up to a limit of $1,200 billion in face value terms. As at 30 June 2023 the face value on issue was $889.8 billion. The schedule above reports the carrying value of debt in fair value (synonymous with market value) terms, being $825.5 billion. A substantial increase in interest rates over the course of the last 18 months has led to the fair value of the debt portfolio to be below its face value as at 30 June 2022 and 30 June 2023.

Financial assets and financial liabilities denoted as being measured at amortised cost, are measured at fair value on initial recognition and at amortised cost on subsequent measurement using the effective interest method. Changes in carrying value, including amortisation of premiums or discounts, are recognised in Interest Revenue (for assets) and Interest Expense (for liabilities).

Financial assets and financial liabilities denoted as being measured at fair value, are measured at fair value on initial recognition and at fair value through profit or loss on subsequent measurement. Changes in carrying value are attributed between changes in amortised cost and other changes. Changes in carrying value attributable to amortised cost, including amortisation of premiums or discounts, are recognised in Interest Revenue (for assets) and Interest Expense (for liabilities). Other changes in carrying value (including unrealised changes in valuation due to a change in interest rates) are recognised in Re-measurements.

The AOFM is not aware of any quantifiable or unquantifiable administered contingencies as of the signing date that may have a significant impact on its operations.

Current/non-current balances reported ($ millions)

	Current		Non-Current	
	2023	2022	2023	2022
LIABILITIES				
Interest bearing liabilities at fair value:				
Treasury Bonds	35,639	87,490	714,065	688,285
Treasury Indexed Bonds	-	-	49,493	45,224
Treasury Notes	26,345	27,451	-	-
Interest bearing liabilities at amortised cost:				
Other debt	6	6	-	-
Other liabilities:				
Loan commitments	..	1	-	-
Total liabilities	**61,990**	**114,948**	**763,558**	**733,509**
ASSETS				
Financial assets:				
Cash held in the OPA	1	1	-	-
Cash held in the cash management account	82,207	86,085	-	-
Assets at amortised cost:				
Securities issued not settled	-	2,490	-	-
Structured finance securities	348	347	311	456
Loans to State and Territory Governments	82	82	1,170	1,251
Accrued interest on cash management account	293	53	-	-
Total assets	**82,931**	**89,058**	**1,481**	**1,707**

Schedule of reconciliation

Administered reconciliation schedule ($ millions)
for the period ended 30 June 2023

	Notes	2023	2022
NET ASSETS			
Opening value		**(757,692)**	**(828,600)**
Surplus (deficit)		(6,967)	97,612
Transactions with the OPA			
Cash management account transfers		(3,878)	29,534
Special appropriations (unlimited)	**10**	205,885	143,967
Transfers to OPA		(178,297)	(199,119)
Contributed equity – special accounts	**10**	500	500
Change in special account balances	**10**	(687)	(1,586)
Net assets		**(741,136)**	**(757,692)**

The above schedule should be read in conjunction with the accompanying notes.

Schedule of cash flows

Administered cash flow statement ($ millions)
for the period ended 30 June 2023

	Notes	2023	2022
NET CASH FROM OPERATING ACTIVITIES			
Interest receipts		1,592	174
Other receipts		2	2
GST refunds from ATO		2	1
Interest paid on Treasury Bonds	**2**	(20,709)	(19,652)
Interest paid on Treasury Indexed Bonds	**3**	(835)	(1,760)
Interest paid on Treasury Notes		(651)	(9)
Interest paid on other debt instruments		(16)	(10)
Other payments		(25)	(17)
Net cash from operating activities	**9**	**(20,640)**	**(21,271)**
NET CASH FROM INVESTING ACTIVITIES			
Securities lending principal receipts		789	-
Capital proceeds from structured finance securities		491	1,417
State and Territory loan repayments		95	94
Acquisition of structured finance securities		(343)	(364)
Securities lending principal payments		(789)	-
Net cash from investing activities		**243**	**1,147**
NET CASH FROM FINANCING ACTIVITIES			
Capital proceeds from borrowings		175,308	198,264
Other receipts		76	45
Repayment of borrowings		(182,312)	(121,901)
Other payments		(76)	(45)
Net cash from financing activities		**(7,004)**	**76,363**

The above schedule should be read in conjunction with the accompanying notes.

Administered cash flow statement ($ millions) (continued)
for the period ended 30 June 2023

	Notes	2023	2022
TRANSACTIONS WITH OPA			
Cash management account transfers		(3,878)	29,534
Appropriations – unlimited special	**10**	205,885	143,967
Appropriations – special accounts		343	363
Receipts to OPA – special accounts		(530)	(1,450)
Receipts to OPA – other		(178,297)	(199,119)
Net cash from OPA		**23,523**	**(26,705)**
Net change in cash held		**(3,878)**	**29,534**
+ cash held at the beginning of period		86,086	56,552
Cash held at the end of the period		**82,208**	**86,086**

The above schedule should be read in conjunction with the accompanying notes.

Note 1: Financial risk management

The government is exposed to financial risks arising from its portfolio of financial assets and liabilities – interest rate risk, inflation risk, credit risk, liquidity risk and refinancing risk. These risks are managed by the AOFM within a financial risk management framework that comprises directions from the Treasurer and policies and limits approved by the Secretary to the Treasury and overseen by the CEO and senior management of the AOFM.

Interest rate risk

Interest rate risk represents the risk to volatility in debt servicing cost outcomes and investment return outcomes, and to the value of debt and financial assets caused by changes in interest rates.

In its ordinary course of business, the primary measure used by the AOFM to assess interest rate risk is the accrual basis of accounting under the historic cost accounting convention. Fair value measures of interest rate risk are considered to be secondary.

Financial instruments with a fixed interest rate expose the portfolio to changes in fair value with changes in interest rates, whilst those financial instruments at floating interest rates expose the portfolio to changes in debt servicing costs with changes in interest rates. The extent to which the AOFM can match the repricing profile of financial liabilities with financial assets is limited due to the significant differences in the volumes and the need for assets to be available for cash management or other purposes. The interest rate exposure is predominately to fixed interest instruments.

Interest exposure of assets and liabilities ($m)

	2023	2022
Fixed interest rate exposures		
Assets	1,545	3,876
Liabilities	(825,542)	(848,450)
Floating interest rate or non-interest bearing exposures		
Assets	82,867	86,889
Liabilities	(6)	(7)

The following sensitivity analysis illustrates the interest rate risk sensitivity of administered financial instruments and the financial impact on profit or loss and equity to financial positions held as at period end.

Sensitivity of 30 June balances to a 104 basis points rise in interest rates (2021–22: 79) ($m)

	2023	2022
Financial Liabilities		
Changes in fair value:		
Treasury Bonds	42,441	33,796
Treasury Indexed Bonds	3,880	3,004
Treasury Notes	38	27
Financial Assets		
Changes in interest revenue:		
Structured finance securities	7	6

Sensitivity of 30 June balances to a 104 basis points fall in interest rates (2021–22: 79) ($m)

	2023	2022
Financial Liabilities		
Changes in fair value:		
Treasury Bonds	(46,836)	(36,539)
Treasury Indexed Bonds	(4,473)	(3,360)
Treasury Notes	(38)	(27)
Financial Assets		
Changes in interest revenue:		
Structured finance securities	(7)	(6)

In undertaking the sensitivity analysis, a parallel shift in interest rates (real and nominal) is applied to instruments with all other variables held constant.

For fixed rate instruments, a shift in market interest rates on balances at 30 June only influences those instruments carried at fair value, by altering their fair value carrying amount as at 30 June. Fixed rate instruments carried at fair value include Treasury Bonds and Treasury Indexed Bonds.

For floating rate instruments, the impact on interest revenue or interest expense represents an annualised estimate calculated as if the positions as at the period end were outstanding for the entire year.

Cash and cash equivalents were excluded from the analysis.

A sensitivity of 104 basis points (79 basis points for 2021–22) has been used for domestic interest rates as per standard parameters mandated by the Department of Finance.

Interest rate benchmarks

Internationally, the reform and strengthening of interest rate benchmarks has been a key focus of financial regulators in recent years. These benchmarks are referenced in a wide range of financial products and are vital for supporting the smooth operation of financial markets.

In Australia, the bank bill swap rate (BBSW) is the major interest rate benchmark for Australian dollar (AUD) denominated debt instruments of tenors from 1-month to 6-months. In structured finance contracts the basis for determining contractual interest flows remains the 1-month BBSW. This has not changed as a result of the financial benchmark reforms. However, contractual fall-backs are in place should BBSW cease to be a suitable reference rate in the future.

Inflation risk

Treasury Indexed Bonds have their principal value indexed on a quarterly basis following the release of the all Groups Australian Consumer Price Index (CPI). Interest is paid quarterly at a fixed rate on the accreted principal value. Accordingly, these debt instruments expose the government to inflation risk on interest payments, and on the value of principal payable on redemption. There is a six-month lag between the calculation period for the CPI and its impact on the value of interest and principal.

Treasury Indexed Bonds index values for next interest payment as at 30 June

	First issued	2023	2022	2021
21 Feb 22 – 1.25%	Feb-12	**–**	-	118.14
20 Sep 25 – 3.00%	Sep-09	**142.66**	132.71	127.23
21 Nov 27 – 0.75%	Aug-17	**119.60**	111.26	106.66
20 Sep 30 – 2.50%	Sep-10	**139.17**	129.46	124.12
21 Nov 32 – 0.25%	Aug-21	**112.14**	104.36	-
21 Aug 35 – 2.00%	Sep-13	**129.00**	119.99	115.04
21 Aug 40 – 1.25%	Aug-15	**123.78**	115.14	110.39
21 Feb 50 – 1.00%	Sep-18	**117.33**	109.14	104.64

Credit risk

Credit risk is the risk of non-performance (including partial performance) by a counterparty to a financial contract, leading to a financial loss for the creditor.

The AOFM's investment activity is comprised of balances acquired for cash management purposes and structured (securitisation) finance securities to support the purposes of the ABSF and SFSF.

For 2021–22 and 2022–23 cash management investments have been restricted to deposits with the RBA through a cash management account. Cash deposits with the RBA are considered to carry zero credit risk.

For proposed investments in structured finance securities, the AOFM uses credit rating assessments by a credit rating agency. Where a structured finance security is not rated by a credit rating agency, the AOFM will engage an advisor to conduct a credit risk assessment, and/or it will evaluate the credit risk internally using other available resources and information.

Post-trade performance monitoring is also conducted, including defaults, prepayment rates, losses, profitability, and level of credit enhancement. The actual historical performance of loan pools may guide revisions of expected future performance. This information is used to gauge whether credit risk has increased significantly since acquisition; and to provide an estimate as to expected future credit losses (either for the next 12 months or full life to maturity, depending on the circumstances).

The maximum credit exposure of structured (securitisation) finance securities acquired is the principal outstanding, plus the total amount of undrawn commitments remaining over the life of the respective facilities. However, the likely amount of loss arising from undrawn commitments may be less than the total amount committed, as the commitments are contingent on maintenance of specific credit standards.

The table below shows the credit exposure to structured (securitisation) finance facilities as at period end:

Credit exposure to structured (securitisation) finance facilities as at 30 June 2023 ($m)

Exposure by fund	Current exposure	Undrawn commitment	Total credit committed
Australian Business Securitisation Fund (ABSF)			
Public term transactions (a)	95	–	95
Private warehouse transactions (b)	208	225	433
Sub-total	**303**	**225**	**528**
Structured Finance Support Fund (SFSF)			
Public term transactions (a)	290	–	290
Private warehouse transactions (b)	50	–	50
Forbearance SPV	16	–	16
Sub-total	**356**	**–**	**356**
Total	**659**	**225**	**884**

(a) Debt securities (backed by underlying collateral) issued by way of public offer by special purpose vehicles for the purposes of funding their lending activities.

(b) Temporary lines of credit (backed by underlying collateral) provided to special purpose vehicles for the purposes of funding their lending activities.

Credit exposure to structured (securitisation) finance facilities as at 30 June 2022 ($m)

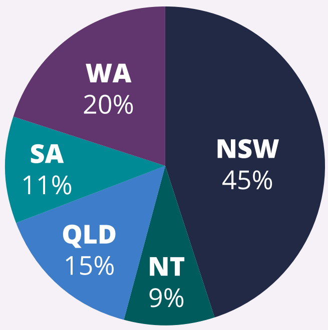
Exposure by fund	Current exposure	Undrawn commitments	Total credit committed
Australian Business Securitisation Fund			
Public term transactions (a)	-	-	-
Private warehouse transactions (b)	111	215	326
Sub-total	**111**	**215**	**326**
Structured Finance Support Fund (SFSF)			
Public term transactions (a)	560	-	560
Private warehouse transactions (b)	109	21	130
Forbearance SPV	26	-	26
Sub-total	**695**	**21**	**716**
Total	**806**	**236**	**1,042**

(a) Debt securities (backed by underlying collateral) issued by way of public offer by special purpose vehicles for the purposes of funding their lending activities.

(b) Temporary lines of credit (backed by underlying collateral) provided to special purpose vehicles for the purposes of funding their lending activities.

Under Commonwealth-State financing arrangements between 1945 and 1989, the Australian Government made concessional loans (not evidenced by the issuance of debt securities) to State and Northern Territory Governments for specific purposes. As at 30 June 2023, the principal outstanding on these loans was $1,366 million.

Composition of loans to state and territory governments as at 30 June 2023:



In relation to those loans administered by the AOFM, as at 30 June 2023 no housing loans were outstanding by Victoria, Tasmania, or the ACT. The maximum exposure to credit risk is the principal value of loans outstanding.

Credit exposure to state and territory governments by credit rating ($m)

Principal value	2023	2022
Aaa / AAA	–	-
Aa1 / AA+	1,238	1,327
Aa2 / AA	–	-
Aa3 / AA-	128	133
Total	**1,366**	**1,460**

Where a counterparty has a split rating between the rating agencies (Standard and Poor's and Moody's), the AOFM's exposure is allocated to the lower credit rating.

To protect the Australian Government's financial position with respect to securities lending arrangements (which allows market participants to borrow Treasury Bonds and Treasury Indexed Bonds not readily available from other sources), the market value of the collateral taken from counterparties is greater than the market value of the securities lent. There is a right to seek additional collateral if there is a decline in the relative values. As at 30 June 2023 there were no open securities lending transactions.

Liquidity risk and refinancing risk

Refinancing risk is the risk that when maturing debt needs to be funded by debt issuance, it may have to be refinanced at a higher cost or market conditions may prevent sufficient funds from being raised in an orderly manner.

The AOFM seeks to manage refinancing risk by avoiding excessive short dated borrowing; spacing of maturity dates; avoiding overly large bond maturities in any one year; and maintaining access to the Treasury Note market.

The AOFM manages liquidity risk by maintaining a cash buffer and by maintaining access to the Treasury Note market.

The AOFM also has access to an overdraft facility with the RBA which can be called on at any time. The overdraft facility is to cover temporary, unexpected shortfalls of cash and has a limit of $10 billion. The overdraft facility is undrawn at the reporting date.

The following table discloses the undiscounted value of the contractual maturities of financial liabilities as at the reporting date, including estimated future interest payments. Interest payments and the principal value on redemption of Treasury Indexed Bonds are based on capital values as at period end.

Future undiscounted cash outflows of liabilities as at 30 June 2023 ($m)

	Treasury Bonds	Treasury Indexed Bonds	Treasury Notes & Other	Total
Principal payments:				
within 1 year	35,900	–	26,171	62,071
1 to 5 years	297,699	20,025	–	317,724
5 to 10 years	353,800	14,401	–	368,201
10 to 15 years	78,550	5,612	–	84,162
15 years+	57,900	10,501	–	68,401
Total Principal	**823,849**	**50,539**	**26,171**	**900,559**
Interest payments:				
within 1 year	19,294	890	334	20,518
1 to 5 years	62,750	2,581	–	65,331
5 to 10 years	39,410	1,747	–	41,157
10 to 15 years	11,706	848	–	12,554
15 years+	9,766	731	–	10,497
Total Interest	**142,926**	**6,797**	**334**	**150,057**

Future undiscounted cash outflows of liabilities as at 30 June 2022 ($m)

	Treasury Bonds	Treasury Indexed Bonds	Treasury Notes & Other	Total
Principal payments:				
within 1 year	85,462	–	27,452	112,914
1 to 5 years	260,700	10,673	–	271,373
5 to 10 years	349,500	15,702	–	365,202
10 to 15 years	79,950	9,079	–	89,029
15 years+	54,900	9,084	–	63,984
Total Principal	**830,512**	**44,538**	**27,452**	**902,502**
Interest payments:				
within 1 year	19,830	803	53	20,686
1 to 5 years	60,090	2,651	–	62,741
5 to 10 years	36,760	1,798	–	38,558
10 to 15 years	11,893	857	–	12,750
15 years+	10,505	752	–	11,257
Total Interest	**139,078**	**6,861**	**53**	**145,992**

Fair value reported

Fair value is the price that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants. This is the quoted market price if one is available.

AASB 13 requires assets and liabilities measured at fair value to be disclosed according to their position in a fair value hierarchy. This hierarchy has three levels: Level 1 is based on quoted prices in active markets for identical instruments; Level 2 is based on quoted prices or other observable market data not included in Level 1; Level 3 is based on significant inputs to valuation other than observable market data.

Fair value hierarchy for assets and liabilities as at 30 June 2023($m)

	Carried at fair value			Carried at
	Level 1	Level 2	Level 3	amortised cost
Liabilities	(825,542)	–	–	(6)
Assets	–	–	–	84,412

Fair value hierarchy for assets and liabilities as at 30 June 2022($m)

	Carried at fair value			Carried at
	Level 1	Level 2	Level 3	amortised cost
Liabilities	(848,450)	-	-	(7)
Assets	-	-	-	90,765

Note 2: Treasury Bonds

Treasury Bonds are denominated in Australian dollars and pay a fixed coupon semi annually in arrears. Treasury Bonds are redeemable at face value on maturity. There are no options available to either the Australian Government or the holders of the securities to exchange or convert Treasury Bonds. There are also no options to either party for early redemption.

The AOFM issues Treasury Bonds primarily through a competitive auction process to registered bidders. In circumstances where a 'high volume' transaction is required, and execution risk is assessed as high, syndicated issuance is undertaken.

Any of the AOFM's buyback activities are a separate consideration and are based on a transaction entered between the AOFM and the bondholder. If the AOFM buys back bonds, it does so at prevailing market prices and then cancels them.

Accounting policy

The AOFM monitors the cost and risk of Treasury Bonds on issue primarily on an accrual basis, but also on a fair value basis. The AOFM has designated Treasury Bonds to be carried at fair value through profit or loss under AASB 9.

The fair value of Treasury Bonds is determined by reference to observable market rates for these instruments.

Key aggregates

Interest expense ($m)

	2023	2022
Interest paid / payable	19,882	19,918
Amortisation of net premiums	(2,568)	(3,604)
Interest expense	**17,314**	**16,314**

The interest expense on the Treasury Bond portfolio has risen over time due to higher borrowing levels, and more recently due to the higher interest rate environment. The accrual yield for 2022–23 was 2.08 per cent, 5 basis points higher than the 2021–22 accrual yield of 2.03 per cent.

Carrying values – administered liabilities ($m)

	2023	2022
Face value	823,849	830,512
Accrued interest	2,743	3,570
Unamortised net premiums	5,267	11,865
Market value adjustment	(82,155)	(70,172)
Carrying value	**749,704**	**775,775**

At 30 June 2023 the weighted average market yield on Treasury Bonds was 4.06 per cent (30 June 2022: 3.24 per cent). At 30 June 2023 the weighted average (nominal) issuance yield on Treasury Bonds was 2.14 per cent (30 June 2022: 2.05 per cent). These figures are weighted by aggregate value. In its 2021–22 Annual Financial Statements the AOFM reported these figures on a face value weighting. The AOFM considers weighting by aggregate value to be a more accurate measure.

Changes in principal value (face value) for the period ($m)

	2023	2022
Issuance	78,800	96,000
Debt repurchased	–	..
Maturities	(85,463)	(16,398)
Change in principal value	**(6,663)**	**79,602**

Interest paid – schedule of cash flows ($m)

	2023	2022
Coupons paid	21,178	20,220
Interest received on issuance	(469)	(568)
Interest paid on repurchase	–	..
Interest paid	**20,709**	**19,652**

Note 3: Treasury Indexed Bonds

Treasury Indexed Bonds are denominated in Australian dollars and are capital indexed with the principal value of the bond adjusted by reference to movements in the CPI.

Interest payments are made quarterly in arrears, at a fixed rate, on the adjusted capital value. At maturity, investors receive the adjusted capital value of the security.

The AOFM issues Treasury Indexed Bonds primarily through a competitive auction process. In circumstances where a 'high-volume' transaction is required, and execution risk is assessed as high, syndicated issuance is undertaken.

Accounting policy

The AOFM monitors the cost and risk on Treasury Indexed Bonds primarily on an accrual basis, but also on a fair value basis. The AOFM has designated Treasury Indexed Bonds to be carried at fair value through profit or loss under AASB 9.

The fair value of Treasury Indexed Bonds is determined by reference to observable market rates for these instruments.

Capital accretion is recognised in Interest Expense over time with each quarterly release of the CPI.

As future inflation rates are uncertain and it is not appropriate for the AOFM to express a view on the inflation outlook, an estimate of the adjusted capital value on maturity of each series of Treasury Indexed Bonds is not disclosed in the financial statements.

Key aggregates

Interest expense ($m)

	2023	2022
Interest paid / payable	841	810
Capital accretion and amortisation of net premiums	3,240	1,356
Interest expense	**4,081**	**2,166**

The interest expense on the Treasury Indexed Bond portfolio has risen over time due to higher borrowing levels, and more recently due to the higher inflationary environment. The accrual yield for 2022–23 was 8.38 per cent, 383 basis points higher than the 2021–22 accrual yield of 4.55 per cent.

Carrying values – administered liabilities ($m)

	2023	2022
Principal (adjusted capital value):		
Face value	39,435	37,235
Capital accretion (to next coupon)	11,103	7,303
Principal value	**50,538**	**44,538**
Accrued interest	52	46
Unamortised net premiums	1,285	1,568
Market value adjustment	(2,382)	(928)
Carrying value	**49,493**	**45,224**

At 30 June 2023, the weighted average market (real) yield on Treasury Indexed Bonds was 1.36 per cent (30 June 2022: 0.8 per cent). At 30 June 2023, the weighted average (real) issuance yield on Treasury Indexed Bonds was 1.06 per cent (30 June 2022: 1.05 per cent). These figures are weighted by aggregate value. In its 2021–22 Annual Financial Statements the AOFM reported these figures on a face value weighting. The AOFM considers weighting by aggregate value to be a more accurate measure.

Changes in principal value for the period ($m)

	2023	2022
Changes in face value due to:		
Issuance	2,200	5,250
Debt repurchased	..	(1,720)
Maturities	–	(5,121)
Changes in capital accretion due to:		
Issuance	380	322
Debt repurchased	..	(326)
Maturities	–	(1,016)
Accretion for the period	3,420	1,878
Change in principal value	**6,000**	**(733)**

Interest paid – schedule of cash flows ($m)

	2023	2022
Coupons paid	839	820
Interest received on issuance	(4)	(3)
Interest paid on repurchase	..	1
Accretion since issuance (paid on redemption)	..	942
Interest paid	**835**	**1,760**

Note 4: Treasury Notes

Treasury Notes are short term discount instruments, denominated in Australian dollars and repayable at face value on maturity.

Treasury Notes are used to accommodate within year cash requirements. The AOFM conducts issuance of Treasury Notes via competitive tenders.

Accounting policy

The AOFM monitors the cost and risk on Treasury Notes primarily on an accrual basis, but also on a fair value basis. The AOFM has designated Treasury Notes to be carried at fair value through profit or loss under AASB 9.

The fair value of Treasury Notes is determined by reference to observable market rates for these instruments.

Key aggregates

Interest expense ($m)

	2023	2022
Interest paid / payable	823	22
Interest expense	**823**	**22**

The accrual yield on the Treasury Note portfolio was 2.86 per cent for 2022–23, 279 basis points higher than 2021–22 of 0.07 per cent. This increase was due to the higher interest rate environment.

Carrying values – administered liabilities ($m)

	2023	2022
Face value	26,500	27,500
Unexpired interest discount	(146)	(38)
Market value adjustment	(9)	(11)
Carrying value	**26,345**	**27,451**

Changes in principal value (face value) for the period ($m)

	2023	2022
Issuance (a)	96,500	98,500
Maturities	(97,500)	(98,250)
Change in principal value	**(1,000)**	**250**

(a) On 30 June 2022, the AOFM issued $2.5 billion of Treasury Notes that were settled on 1 July 2022. These securities issued but not settled as at 30 June 2022, are included in the above figures as at 30 June 2022. A corresponding financial asset was raised for the proceeds received from counterparties on 1 July 2022.

Note 5: Loan commitments liabilities

Loan commitment liabilities are present obligations to provide credit under specified terms and conditions. Agreements made via the ABSF and SFSF with warehouse financing facilities provide financing (through the acquisition of the debt securities in a securitisation) up to an agreed commitment level, for a period of time, and subject to conditions precedent. They are contractual commitments.

Accounting policy

Loan commitments are measured at fair value on the initial striking of a financing agreement. Where the AOFM enters into an agreement with a financing facility to provide funding at below market interest rates, a loan commitment liability (and a day-1 loss expense) is recognised at the commitment date. This liability reflects the financial effect of the concession.

In circumstances where a commitment liability is recognised, it is reversed and allocated (or amortised) to interest revenue over the expected term of the financing facility using the effective interest rate at the time the loan commitment agreement was struck. Where the AOFM enters into an agreement with a warehouse financing facility to provide funding at-market, the commitment is recorded off-balance sheet (i.e. a loan commitment liability is not raised).

In addition, AASB 9 requires reporting entities to make an allowance for expected credit losses on all loan commitments. The allowance represents the discounted present value of the difference between contractual cash flows due over the expected life of an asset and the expected cash flows (including timing differences). However, AASB 9 requires the carrying value of loan commitments to be the higher of:

- the allowance for expected credit losses; and
- the unamortised balance of the loan commitment liability.

The AOFM applies this test at the debt security level.

The process of calculating the forward-looking loss allowance for both the 12-month ECL and lifetime ECL categories requires the use of significant estimates and judgements of the probability of default, loss given default, exposure at default, and economic conditions.

Debt securities acquired by the AOFM through the ABSF and the SFSF are reported at Note 7.

Key aggregates

Carrying values – Loan commitments liabilities ($m)

	2023	2022
Australian Business Securitisation Fund		
Loan commitments liabilities	..	..
Expected credit loss provision	..	..
Sub-total	**..**	**..**
Structured Finance Support Fund		
Loan commitments liabilities	–	–
Expected credit loss provision	–	1
Sub-total	**–**	**1**
TOTAL		
Loan commitments liabilities	..	..
Expected credit loss provision	..	**1**
Total	..	**1**

Note 6: Cash held in cash management account (CMA)

The CMA was created under the authority of section 53 of the *Public Governance, Performance and Accountability Act 2013*. The CMA resides outside the Official Public Account (OPA) and earns a market rate of interest. The agreement is structured so that daily, excess OPA balances (above an agreed minimum threshold) are swept to the CMA at the end of each day and returned to the OPA at the start of the next day. The cash balance of the OPA is reported by the Department of Finance.

Accounting policy

The balances held in the cash management account are effectively 'at call' and classified as 'cash' in the balance sheet.

Key aggregates

Interest revenue ($m)

	2023	2022
Interest received / receivable	1,716	110
Interest revenue	**1,716**	**110**

Carrying values – administered assets ($m)

	2023	2022
Face value	82,207	86,085
Accrued interest (a)	293	53
Carrying value	**82,500**	**86,138**

(a) The accrued interest on the cash management account is reported separately to the principal value of the cash balance on the administered balance sheet.

Note 7: Investments in structured finance securities

Investments acquired by the AOFM through the ABSF and SFSF represent debt securities in structured finance vehicles, and are either public term securitisations, private warehouse financing facilities, or the debt securities issued by the Forbearance SPV. The contractual cash flows received on these debt securities represent payments of principal and interest on outstanding principal. This is consistent with a basic lending arrangement.

Accounting policy

The AOFM recognises these investments at fair value on initial recognition. The AOFM's business model is to hold these investments primarily to collect the contractual cash flows, and as such they are carried at amortised cost on subsequent measurement using the effective interest method.

Periodically, actual historical performance of each investment is used to revise expected future performance. This information is used to gauge whether credit risk has increased significantly since acquisition, and to provide a revised estimate as to the expected future credit losses. Where relevant, the impairment provision is revised accordingly.

Impairments on these investments are required to be measured on an expected credit loss (ECL) basis under AASB 9. The process of calculating the forward-looking loss allowance for both the 12-month ECL and lifetime ECL categories requires the use of significant estimates and judgements of the probability of default, loss given default, exposure at default, and economic conditions.

Key aggregates

Interest revenue ($m)

	2023	2022
Australian Business Securitisation Fund (ABSF):		
Interest and fees received / receivable	18	3
Amortisation of discounts	..	..
Concessional loan discounts	..	..
Impairment provision (expenses) revenues	(1)	..
ABSF Sub-total	**17**	**3**
Structured Finance Securitisation Fund:		
Interest and fees received / receivable (a)	24	31
Amortisation of discounts	2	1
Concessional loan discounts	–	–
Impairment provision (expenses) revenues	1	4
SFSF Sub-total	**27**	**36**
Total interest revenue	**44**	**39**

(a) Includes earnings from debt securities issued by the Forbearance SPV.

Carrying values – administered assets ($m)

	2023	2022
Australian Business Securitisation Fund (ABSF)		
Face value	303	111
Unamortised net discounts	..	..
Accrued Interest	1	..
Expected credit loss provision	(1)	..
ABSF Sub-total	**303**	**111**
Structured Finance Support Fund (SFSF) (a)		
Face value	356	695
Unamortised net discounts	(1)	(3)
Accrued Interest	1	1
Expected credit loss provision	..	(1)
SFSF Sub-total	**356**	**692**
Total carrying value	**659**	**803**
Expected to be received (b):		
Within one year	348	347
In one to five years	311	456
In more than five years	–	–
Carrying value by expected recovery	**659**	**803**
Ageing:		
Not overdue	659	803
Overdue	–	–
Carrying value by ageing	**659**	**803**

(a) Includes debt securities issued by the Forbearance SPV.

(b) The maturity profile is based on the weighted average life of each investment and disregarding estimated principal repayments (the timing and quantum of which are uncertain) prior to that time.

Change in principal value (face value) of investments for the period ($m)

	2023	2022
Australian Business Securitisation Fund (ABSF)		
Acquisitions	320	94
Redemptions	(128)	(85)
Total change in principal value for ABSF	**192**	**9**
Structured Finance Support Fund (SFSF) (a)		
Acquisitions	23	269
Redemptions	(362)	(1,331)
Total change in principal value for SFSF	**(339)**	**(1,062)**

(a) Includes debt securities issued by the Forbearance SPV.

The Forbearance SPV

The value of interest revenue earned, and investments identified in the above tables for the Structured Finance Support Fund are inclusive of the Forbearance SPV.

The AOFM acquired variable funding notes issued by the Forbearance SPV to fund the making of liquidity payment loans to participating trust vehicles. As the Participation Unitholder of the Forbearance SPV, the Commonwealth is entitled to any residual income generated by the Forbearance SPV.

The provision of liquidity funding to participating trust vehicles ceased on 31 March 2021.

In accordance with the requirements of clause 32 of the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* the Forbearance SPV has not been consolidated in accordance with *AASB 10 Consolidated Financial Statements*, or in accordance with *AASB 128 Investments in Associates and Joint Ventures*. The AOFM has applied *AASB 9 Financial Instruments* to its debt security investments in the Forbearance SPV.

Interest revenue earned from the Forbearance SPV in 2022–23 was $1.1 million (2021–22: $1.6 million). As at the end of the financial year the carrying value of debt securities held in the Forbearance SPV was as follows:

Carrying value of debt securities held in the Forbearance SPV at 30 June 2023 ($m)

	2023	2022
Forbearance SPV		
Face value of securities	16	26
Accrued Interest	..	..
Expected credit loss provision	..	..
Total Carrying Value	**16**	**26**

Change in principal value (face value) of investments for the period ($m)

	2023	2022
Forbearance SPV		
Acquisitions	–	–
Redemptions	(10)	(12)
Total change in principal value	**(10)**	**(12)**

Note 8: Loans to State and Territory Governments

Loans to State and Territory Governments predominantly comprise concessional housing advances and specific purpose capital advances made between 1945 and 1989 under Commonwealth – State financing arrangements. These loans are structured with annual repayments, which incorporate principal and interest.

Accounting policy

Loans to State and Territory Governments are measured at fair value on initial recognition and at amortised cost on subsequent measurement using the effective interest method. The expected credit loss is estimated to be nil on these loans due to the federal financial relations system between the Commonwealth and the states and the territories.

Key aggregates

Carrying values – administered assets ($m)

	2023	2022
Face value	1,366	1,460
Unamortised net discounts	(114)	(127)
Accrued interest	..	..
Carrying value	**1,252**	**1,333**
Expected to be received:		
Within one year	82	82
In one to five years	346	338
In more than five years	824	913
Carrying value by expected recovery	**1,252**	**1,333**
Ageing:		
Not overdue	1,252	1,333
Overdue	–	–
Carrying value by ageing	**1,252**	**1,333**

The fair value of these loans was $1,397 million at 30 June 2023 (2021–22: $1,543 million). In estimating fair value, data from Treasury Bonds is used.

Note 9: Cash flow reconciliation

The following table reconciles the surplus (deficit) reported in the Schedule of Comprehensive Income to net cash flows from operating activities reported in the Schedule of Cash Flows.

Reconciliation of net cash from operating activities ($m)

	2023	2022
Surplus (deficit)	**(6,967)**	**97,612**
Adjustments for non-cash items:		
Amortisation and capital accretion of debt instruments	672	(2,249)
Amortisation of financial assets	(15)	(17)
Concessional loan discounts	..	..
Impairment provision expenses (revenues)	..	(4)
Re-measurements	(13,435)	(115,931)
Adjustments for cash items:		
Capital accretion costs on redemption of debt	..	(943)
Debt repurchases	..	34
Accrual adjustments:		
Interest accruals on debt	(649)	226
Interest accruals on assets	(246)	1
Net cash from operating activities	**(20,640)**	**(21,271)**

Note 10: Appropriations

Administered special appropriations – unlimited ($'000)

	2023	2022
Commonwealth Inscribed Stock Act 1911		
s13AA – payment of principal and interest on money raised by Stock issued under the Act and payments on depository interests in Stock issued under the Act	205,070,656	141,880,324
s13A – payment of costs and expenses incurred in relation to issuing and managing debt and depository interests	25,435	16,739
s13B – payment of costs and expenses incurred in repurchasing debt prior to maturity	107	2,069,751
Financial Agreement Act 1994		
s5 – debt redemption assistance and payment of interest to bond holders on behalf of the State and Northern Territory Governments on public debt under the Act (a)	10	7
Loan Securities Act 1919		
s5BA – payment of money to enter into securities lending arrangements	789,256	-
Public Governance, Performance and Accountability Act 2013		
s77 – repayment of monies received where there is no appropriation for the repayment	–	692
Total	**205,885,464**	**143,967,513**

(a) The 2022–23 amount includes $5,066 paid into the Debt Retirement Reserve Trust Account (2021–22: $829).

The following administered special appropriations are available but were not used by the AOFM during 2022–23 and 2021–22:

- *Australian National Railways Commission Sale Act 1997*, sec 67AW – Purpose: payment of principal and interest on former debts of the National Railways Commission.
- *Loans Redemption and Conversion Act 1921*, sec 5 – Purpose: payment of principal, interest, and costs of converting loans made in accordance with the Act.
- *Loans Securities Act 1919*, sec 4 – Purpose: payment of principal and interest on money raised by stock issued under the Act.
- *Loans Securities Act 1919*, sec 5B – Purpose: payment of money under a swap or other financial arrangement and any expenditure in connection with the negotiation, management, or service of, or a repayment under, any such agreement.
- *Moomba-Sydney Pipeline System Sale Act 1994*, sec 19 – Purpose: payment of principal and interest on former debts of the Pipeline Authority.
- *Public Governance, Performance and Accountability Act 2013,* sec 58(7) – Purpose: investments made in the name of the Commonwealth of Australia.
- *Public Governance, Performance and Accountability Act 2013*, sec 74A – Purpose: payments of recoverable GST.
- *Treasury Bills Act 1914*, sec 6 – Purpose: payment of principal and interest on money raised by issuance of Treasury Bills.

Special account – Australian Business Securitisation Fund (ABSF) ($'000)

	2023	2022
Opening balance	892,446	398,500
Statutory credit to the special account	500,000	500,000
Investments made	(320,340)	(94,467)
Capital proceeds received from investments	128,487	85,442
Interest and commitment fees received	15,828	2,971
Closing balance	**1,216,421**	**892,446**
Balance represented by:		
Cash – held in the Official Public Account	1,216,421	892,446

Establishing Instrument – *Australian Business Securitisation Fund Act 2019*, section 11.

Purpose – to increase the availability and reduce the cost of credit provided to small and medium enterprises. This is achieved by the Commonwealth investing in debt securities in accordance with the *Australian Business Securitisation Fund Act 2019*.

The ABSF Special Account received its first funding credit of $250 million on 1 July 2019. A second tranche of funding of $250 million was made on 1 July 2020. Additional funding, each of $500 million, occurred on 1 July 2021, 1 July 2022, and 1 July 2023.

Special account – Structured Finance Support Fund (SFSF) ($'000)

	2023	2022
Opening balance	14,397,201	13,305,485
Statutory credit to the special account	–	–
Investments made	(22,892)	(269,256)
Capital proceeds received from investments	362,851	1,331,414
Interest and commitment fees received	22,837	29,557
Other receipts	–	1
Closing balance	**14,759,997**	**14,397,201**
Balance represented by:		
Cash – held in the Official Public Account	14,759,997	14,397,201

Receipts and payments reported above are inclusive of receipts from and payments to the Forbearance SPV. Receipts from and payments to the Forbearance SPV are as follows:

Forbearance SPV – receipts and payments ($'000)

	2023	2022
Investments made	–	–
Capital proceeds received from investments	10,566	12,843
Interest received	1,078	1,639
Other receipts	..	1
Net cash inflows (outflows) for the Forbearance SPV	**11,644**	**14,483**

Establishing Instrument – The *Structured Finance Support (Coronavirus Economic Response Package) Act 2020*, section 11.

Purpose – to ensure continued access by smaller lenders to funding markets during the COVID-19 pandemic.

The SFSF Special Account received a statutory funding credit of $15 billion on 25 March 2020.

Special account – Debt Retirement Reserve Trust Account (DRRTA) ($'000)

	2023	2022
Opening balance	190	24
Commonwealth contributions and interest paid	5	1
State contributions	..	250
Debt repayments made	(32)	(85)
Closing balance	**163**	**190**
Balance represented by:		
Cash – held in the Official Public Account	163	190

Establishing Instrument – the *Public Governance, Performance and Accountability Act 2013*, section 80.

Purpose – to fund the redemption of the State and Territory debt governed by the *Financial Agreement Act 1994*. Monies standing to the credit of the Debt Retirement Reserve Trust Account are held on behalf of New South Wales and Victoria. These monies are held for the purposes prescribed by the *Financial Agreement Act 1994*.

Note 11: Budgetary report to outcome comparison

The AOFM produces estimates of the impact of its debt financing operations through the issuance of Australian Government Securities (AGS) and certain financial assets for the Australian Government Budget. Following the change of Government in April 2022, the new Government produced its 2022–23 Budget in October 2022. The Budget comprises the 2022–23 financial year plus three forward years.

The projections of debt issuance and asset holdings are a consequence of the expenditure, investment and revenue decisions and assumptions made by the government in producing its Budget together with estimates of debt to mature during the period. As part of the Budget process, the AOFM receives an estimate of the aggregated annual financing task for the Budget year and forward years from the Treasury. The annual financing task, plus the volume of maturing AGS debt and planned early repurchases of AGS debt (that would otherwise mature in a future year), are central to determining the size of the planned debt issuance program in each year.

The volume of AGS debt that needs to be issued in face value terms to generate the required level of financing will depend on the level of AGS yields (or interest rates) and the chosen maturities and mix of debt to be issued. These decisions are based on the debt management strategy for the period ahead, which in turn takes into account longer term portfolio considerations.

It is assumed that the future AGS yields for different tenors of debt will be the same as the prevailing observed market rates at the time the Budget estimates are prepared.

Administered schedule of comprehensive income ($m)

	Outcome	Budget (a)	Variance
	2023	2023	2023
EXPENSES			
Interest expense	22,218	22,396	(178)
Other expenses	23	27	(4)
Total expenses	**22,241**	**22,423**	**(182)**
INCOME			
Interest revenue	1,839	1,143	696
Total income	**1,839**	**1,143**	**696**
Surplus (deficit) before re-measurements	**(20,402)**	**(21,280)**	**878**
Re-measurements	13,435	(2,434)	15,869
Total re-measurements	**13,435**	**(2,434)**	**15,869**
Surplus (deficit)	**(6,967)**	**(23,714)**	**16,747**

(a) Budget released in October 2022. The Budget figures are not audited.

Significant variances in expenses before re-measurements

Interest expense for 2022–23 was $178 million lower than forecast in the 2022–23 October Budget. This comprises a favourable variance of $196 million and $85 million on Treasury Bonds and Treasury Notes respectively, and an unfavourable variance on Treasury Indexed Bonds of $103 million. These variances are due to offsetting factors. The inflationary environment in 2022–23 was higher than forecast, leading to higher capital accretion costs on the Treasury Indexed Bond portfolio. The improving fiscal position in 2022–23 resulted in a reduction in Treasury Bonds and Treasury Notes issuance for the year as compared to Budget.

Significant variances in income before re-measurements

Interest revenue for 2022–23 was $696 million higher than forecast in the October 2022 Budget. This arose by way of two factors: a richer average cash position throughout 2022–23 due to the improving fiscal position; and a higher interest rate environment due to monetary policy tightening.

Significant variances in re-measurements

Re-measurements represents the unrealised change in the fair value (synonymous with market value) of the AGS portfolio from 1 July 2022 to 30 June 2023.

It is assumed in the Budget that AGS yields for different tenors of debt will be the same as the prevailing observed market rates (at the time the budget estimates are prepared) for the entirety of the forecast period. Observed yields for the October Budget closely aligned with those as at 30 June 2022, resulting in a modest market revaluation of the AGS portfolio.

However, as at 30 June 2023, long-term interest rates rose to be around 35–40 basis points higher than as at 30 June 2022, and leading to a favourable market revaluation. There is an inverse relationship between price and yield (that is as yields rise (fall) prices fall (rise)).

Administered schedule of assets and liabilities ($m)

	Outcome 2023	Budget (a) 2023	Variance 2023
LIABILITIES			
Treasury Bonds	749,704	780,935	(31,231)
Treasury Indexed Bonds	49,493	50,030	(537)
Treasury Notes	26,345	46,977	(20,632)
Other debt	6	5	1
Loan commitments	..	1	(1)
Total liabilities	**825,548**	**877,948**	**(52,400)**
ASSETS			
Cash at bank: bank accounts	82,208	39,236	42,972
Cash at bank: special accounts (b)	-	15,710	(15,710)
Investments	659	925	(266)
Loans to State and Territory Governments	1,252	1,252	-
Accrued interest on cash management account	293	58	235
Total assets	**84,412**	**57,181**	**27,231**
Net assets	**(741,136)**	**(820,767)**	**79,631**

(a) Budget released in October 2022. The Budget figures are not audited.

(b) In the October 2022 Budget the AOFM reported the ABSF and SFSF special accounts as cash at bank. The reporting approach was amended from 2023–24 Budget (released in May 2023) to remove the ABSF and SFSF special accounts from cash at bank. As at 30 June 2023, the balance of the ABSF special account was $1,216 million and the SFSF special account was $14,760 million. Refer to *Note 10: Appropriations* for detailed disclosure of ABSF and SFSF special account balances.

Significant variances in liabilities

The fair value of the AGS portfolio experienced a favourable change of over $52 billion as at 30 June 2023 as compared to forecasts in the October 2022 Budget. The stronger fiscal position resulted in lower AGS issuance of around $37 billion (in face value terms). In addition, the higher interest rate environment resulted in a $16 billion favourable fair value revaluation as compared to Budget.

Significant variances in assets

A stronger fiscal position in 2022–23 led to a richer cash position as at 30 June 2023 of $43 billion as compared to forecasts in the October 2022 Budget.

Note 12: Securities lending facility

The AOFM has a securities lending facility for Treasury Bonds and Treasury Indexed Bonds, which is operated by the RBA on behalf of the Australian Government.

Through the Australian Financial Markets Association (AFMA), market participants requested an extension to the facility to permit cash (in addition to securities) to be accepted as collateral for Treasury Bonds and Treasury Indexed Bonds loaned out. On 6 December 2022 the facility was extended allowing eligible parties to post cash as collateral when utilising the securities lending facility.

The purpose of the facility is to enhance the efficiency of the bond markets by allowing bond market participants to borrow Treasury Bonds and Treasury Indexed Bonds when they are not readily available. Bonds are lent on an intra-day or overnight basis.

Transactions completed during the period

	Number		Face value ($m)	
	2023	2022	2023	2022
Overnight:				
Treasury Bonds	33	88	1,297	2,612
Treasury Indexed Bonds	104	124	1,101	1,443
Intra-day:				
Treasury Bonds	–	-	–	-
Treasury Indexed Bonds	–	-	–	-
Total	**137**	**212**	**2,398**	**4,055**

18 transactions for $206.7 million of Treasury Bonds and Treasury Indexed Bonds were open at the beginning of the year. These transactions are included in the above figures.

No transactions were open as at 30 June 2023.

Separate to the securities lending facility, bond market participants can borrow Treasury Bonds and Treasury Indexed Bonds from the RBA in which the securities are sourced from the RBA's holdings.

Departmental Accounts

Departmental assets, liabilities, revenue, and expenses are those items that an entity has control over; and they include ordinary operating costs and associated funding, salaries, employee entitlements and operational expenses.

Statement of comprehensive income

Statement of comprehensive income ($'000)
for the period ended 30 June 2023

	Notes	2023	2022	Budget 2023	Variance from Budget
NET COST OF SERVICES					
EXPENSES					
Employee benefits	**A**	7,986	7,618	9,614	(1,628)
Supplier expenses	**A**	5,392	5,215	5,852	(460)
Depreciation and amortisation	**C, D**	595	574	553	42
Interest on lease liabilities	**F**	57	61	57	–
Interest on makegood liability	**G**	19	-	-	19
Total expenses		**14,049**	**13,468**	**16,076**	**(2,027)**
OWN-SOURCE INCOME					
Staff secondments		–	51	25	(25)
Asset revaluation		8	-	-	8
Resources received free of charge		250	260	260	(10)
Total own-source income		**258**	**311**	**285**	**(27)**
Net cost of services		**(13,791)**	**(13,157)**	**(15,791)**	**2,000**
APPROPRIATION FUNDING					
Revenue from government		16,379	16,513	16,379	–
Total appropriation funding		**16,379**	**16,513**	**16,379**	**-**
Surplus (deficit)		**2,588**	**3,356**	**588**	**2,000**
OTHER COMPREHENSIVE INCOME					
Asset revaluation		481	-	-	481
Makegood revaluation		(81)	(23)	-	(81)
Comprehensive income		**2,988**	**3,333**	**588**	**2,400**

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in October 2022 (Budget figures are not audited).

Statement of financial position

Statement of financial position ($'000)

as at 30 June 2023

	Notes	2023	2022	Budget 2023	Variance from Budget
ASSETS					
Financial assets:					
Cash and cash equivalents		100	100	100	–
Receivables	B	33,852	32,560	33,511	341
Non-financial assets:					
Property, plant, and equipment	C	5,821	5,730	5,526	295
Computer software	D	252	433	461	(209)
Supplier prepayments		344	280	280	64
Total assets		**40,369**	**39,103**	**39,878**	**491**
LIABILITIES					
Payables:					
Supplier payables		924	906	906	18
Salary and superannuation		233	176	176	57
Provisions:					
Employee provisions	E	3,031	2,675	2,726	305
Lease liabilities	F	3,902	4,142	3,901	1
Other provisions	G	583	483	483	100
Total liabilities		**8,673**	**8,382**	**8,192**	**481**
Net assets		**31,696**	**30,721**	**31,686**	**10**
EQUITY					
Retained surplus		41,658	39,070	39,658	2,000
Asset revaluation reserve		715	315	315	400
Contributed equity		(10,677)	(8,664)	(8,287)	(2,390)
Total equity		**31,696**	**30,721**	**31,686**	**10**

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in October 2022 (Budget figures are not audited).

Current/non-current balances ($'000)

	Current		Non-Current	
	2023	2022	2023	2022
ASSETS				
Financial assets:				
Cash and cash	100	100	-	-
Receivables	17,090	15,598	16,762	16,962
Non-financial assets:				
Property, plant, and equipment	-	-	5,821	5,730
Computer software	-	-	252	433
Supplier prepayments	344	280	-	-
Total assets	**17,534**	**15,978**	**22,835**	**23,125**
LIABILITIES				
Payables:				
Supplier payables	924	906	-	-
Salary and	233	176	-	-
Provisions:				
Employee provisions	956	724	2,075	1,951
Lease liabilities	253	241	3,649	3,901
Other provisions	-	-	583	483
Total liabilities	**2,366**	**2,047**	**6,307**	**6,335**

Statement of changes in equity

Statement of changes in equity ($'000)
for the period ended 30 June 2023

	Notes	2023	2022	Budget 2023	Variance from Budget
RETAINED SURPLUS					
Opening balance		**39,070**	**35,714**	**39,070**	**-**
Surplus (deficit)		2,588	3,356	588	2,000
Retained surplus		**41,658**	**39,070**	**39,658**	**2,000**
ASSET REVALUATION RESERVE					
Opening balance		**315**	**338**	**315**	-
Asset revaluation		481	-	-	481
Makegood revaluation		(81)	(23)	-	(81)
Asset revaluation reserve		**715**	**315**	**315**	**400**
CONTRIBUTED EQUITY					
Opening balance		**(8,664)**	**(8,855)**	**(8,664)**	-
Capital injection		377	368	377	-
Appropriations extinguished	I	(2,390)	(177)	-	(2,390)
Contributed equity		**(10,677)**	**(8,664)**	**(8,287)**	**(2,390)**
Total equity		**31,696**	**30,721**	**31,686**	**10**

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in October 2022 (Budget figures are not audited).

The AOFM is not aware of any quantifiable or unquantifiable departmental contingencies as of the signing date that would have a significant impact on its operations.

Statement of cash flows

Statement of cash flows ($'000)
for the period ended 30 June 2023

	Notes	2023	2022	Budget 2023	Variance from Budget
NET CASH FROM OPERATING ACTIVITIES					
Appropriations: Operating		13,178	12,905	15,453	(2,275)
GST received from ATO		1	2	–	1
Services and other		105	179	25	80
Employees		(7,709)	(7,757)	(9,563)	1,854
Suppliers		(5,171)	(4,854)	(5,592)	421
Interest paid on leases		(57)	(61)	(57)	–
Transfers to OPA (a)		(106)	(181)	(25)	(81)
Net operating activities	**H**	**241**	**233**	**241**	**–**
NET CASH FROM INVESTING ACTIVITIES					
Purchase of assets		(16)	(6)	(377)	361
Net investing activities		**(16)**	**(6)**	**(377)**	**361**
NET CASH FROM FINANCING ACTIVITIES					
Appropriations: Capital		16	6	377	(361)
Lease liability		(241)	(233)	(241)	–
Net financing activities		**(225)**	**(227)**	**136**	**(361)**
Net change in cash held		**–**	**–**	**–**	**–**
+ cash held at the beginning of period		100	100	100	–
Cash held at the end of the period		**100**	**100**	**100**	**–**

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in October 2022 (Budget figures are not audited).

(a) Non appropriation receipts are required to be returned to the Official Public Account (OPA). They increase the AOFM's available appropriation under section 74 of the *Public Governance, Performance and Accountability Act 2013* and when subsequently drawn down for use by the AOFM they are recorded as appropriations.

Note A: Expenses

Employee benefits ($'000)

	2023	2022
Wages and salaries	6,566	6,784
Superannuation	1,326	1,054
Leave entitlements	89	(223)
Other employee expenses	5	3
Total	**7,986**	**7,618**

For 2022–23 the AOFM's average staffing level was 42, which represented a decrease (of 1) from an average staffing level of 43 in 2021–22.

The below table sets out the actual remuneration (on an accruals basis) for key management personnel.

Key Management Personnel ($'000)

	2023	2022
Salary and other short-term benefits	318	385
Annual leave accrued	25	31
Long service leave accrued	7	12
Post-employment benefits (superannuation)	53	53
Total	**403**	**481**
Key Management Personnel	**6**	**1**

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly. The Chief Executive Officer (CEO), the Secretary to the Treasury and the Treasurer have been determined to be key management personnel for the AOFM. The AOFM CEO is appointed by the Secretary to the Treasury and is the only KMP remunerated by the AOFM.

On 23 September 2022, the former CEO Mr Rob Nicholl resigned his position. On 16 January 2023 Ms Anna Hughes commenced her appointment as the AOFM CEO. During the intervening period, being 73 business days, 4 of the AOFM's staff acted in the role. The remuneration note discloses the actual remuneration of all 6 individuals whilst in the role of the AOFM CEO (both on a substantive basis and on an acting basis).

Supplier expenses ($'000)

	2023	2022
Collateral verification agent services (a) (b)	–	53
Consultants and contractors for ABSF and SFSF	3	157
Corporate support services	926	914
Depository and transaction costs	116	88
Internal and external audit services	549	526
Investment management services for ABSF and SFSF	822	940
Legal	240	47
Market data services	571	552
Travel	314	150
Treasury management system	528	527
Trust management expenses (a)	128	254
Insurance	58	68
Other	1,137	939
Total	**5,392**	**5,215**

(a) These expenses are wholly attributable to the operation of the Forbearance SPV.

(b) The Australian National Audit Office (ANAO) has engaged Deloitte Touche Tohmatsu as contract auditor for the AOFM's financial statements audit. Collateral verification agent services were non-audit services performed by Deloitte Touche Tohmatsu. These services were nil for 2022–23 and $53,000 for 2021–22.

Comparative information has been revised where appropriate to enhance comparability.

Note B: Receivables

Accounting policy

Receivables are measured at fair value on initial recognition and at amortised cost on subsequent measurement.

Appropriations receivable are recognised at their nominal amounts. Appropriations receivable are appropriations controlled by the AOFM but held in the OPA under the government's 'just in time' drawdown arrangements.

Receivables ($'000)

	2023	2022
Goods and services (related)	26	14
Appropriations receivable	33,824	32,546
GST and FBT	2	–
Total	**33,852**	**32,560**

No receivable is overdue. All receivables are with related entities.

Note C: Property, plant, and equipment

Accounting policy

Asset recognition threshold on acquisition

Purchases of leasehold improvements are recognised initially at cost; except for purchases costing less than $10,000, which are expensed at the time of acquisition. The estimated cost of removal and restoring the leased premises to their original condition is included in the initial cost of leasehold improvements.

AASB 16 sets out the rules for recognition, measurement, and disclosure of leases. It requires most leases to be recognised under a single lease model, removing the distinction between finance and operating leases. It also requires a lessee to recognise a "right of use asset" and a lease liability on its balance sheet. The AOFM has recognised a lease liability on its obligations arising from the lease of its office premises within the Treasury Building. The lease term ends on 21 December 2025 and there are two 5-year extension options exercisable by the AOFM (which the AOFM expects to exercise). A right of use asset was initially recognised and measured at a value equivalent to the lease liability. The right of use asset is subsequently depreciated using the straight-line method to the end of the expected lease term.

Purchases of plant and equipment are recognised initially at cost, except for purchases costing less than $1,000 which are expensed at the time of acquisition.

Revaluations

Following initial recognition at cost, those items of property, plant, and equipment whose fair value can be measured reliably are valued with sufficient frequency to ensure that the carrying amounts of assets do not materially differ from fair value as at the reporting date. Fair value is determined by depreciated replacement cost for leasehold improvements and by secondary market information for plant and equipment.

Every three years, the AOFM engages an independent valuer to conduct a valuation of property, plant, and equipment assets. A revaluation was last conducted as at 31 March 2023. A revaluation gain of $481,291 was recorded for leasehold improvements. This gain was recorded in the asset revaluation reserve in equity. A revaluation gain of $8,357 for plant and equipment was recorded as revenue.

At 30 June 2023, the AOFM had cumulative net revaluation losses of $72,708 for plant and equipment. At 30 June 2023, the balance in the asset revaluation reserve comprises net revaluation gains on leasehold improvements.

Right of use assets are retained at cost and are not subject to periodic revaluation.

Property, plant, and equipment ($'000)

	2023	2022
Gross value:		
Leasehold improvements	2,582	2,025
Plant and equipment	273	289
Right-of-use asset – lease premises	4,820	4,820
Accumulated depreciation:		
Leasehold improvements	(673)	(494)
Plant and equipment	(11)	(33)
Right-of-use asset – lease premises	(1,170)	(877)
Total	**5,821**	**5,730**

No indicators of impairment were identified for property, plant, and equipment.

Reconciliation of changes in gross value ($'000)

	2023	2022
Opening value	**7,134**	**7,128**
Purchases	16	6
Revaluation adjustments – leasehold improvements	557	-
Revaluation adjustments – plant and equipment	(32)	-
Closing value	**7,675**	**7,134**

Reconciliation of changes in accumulated depreciation ($'000)

	2023	2022
Opening value	**(1,404)**	**(1,011)**
Depreciation charge for period		
Leasehold improvements	(103)	(87)
Plant and equipment	(19)	(14)
Right-of-use asset	(292)	(292)
Revaluation adjustments – leasehold improvements	(76)	-
Revaluation adjustments – plant and equipment	40	-
Closing value	**(1,854)**	**(1,404)**

Depreciation

Leasehold improvements and right of use assets are depreciated using the straight-line method over the expected lease term.

Plant and equipment is depreciated using the straight line method, on the basis of the following useful lives.

Useful life

	2023	2022
Artwork	100 years	100 years
Furniture and fittings	Lease term	Lease term
ICT equipment	3–5 years	3–5 years

Useful lives are assessed annually and revised if necessary to reflect current estimates of an asset's useful life to the AOFM. Revisions in useful life affect the rate of depreciation applied for the current period and future periods.

The useful lives of leasehold improvements and furniture and fittings were reviewed in 2022–23 and no changes were made to useful lives. No change was made to depreciation expenses for 2022–23 arising from useful life revisions (2021–22: nil).

Note D: Computer software

Accounting policy

Asset recognition threshold on acquisition

Purchases of computer software are recognised initially at cost except for purchases costing less than $10,000 which are expensed at the time of acquisition.

An item of software represents a software licence granted for greater than 12 months, or a developed software application.

Developed software is recognised by capitalising all directly attributable internal and external costs that enhance functionality and therefore service potential. Software assets are retained at cost and are not subject to periodic revaluation.

Computer software ($'000)

	2023	2022
Gross value	1,696	1,696
Accumulated amortisation	(1,444)	(1,263)
Total	**252**	**433**

No indicators of impairment were identified for computer software.

Reconciliation of changes in gross value ($'000)

	2023	2022
Opening value	1,696	1,696
Purchases	–	–
Disposals	–	–
Closing value	**1,696**	**1,696**

Amortisation

Software assets are amortised using the straight-line method over their anticipated useful lives, being three to ten years (2021–22: three to ten years).

Reconciliation of changes in accumulated amortisation ($'000)

	2023	2022
Opening value	**(1,263)**	**(1,083)**
Amortisation charge for period	(181)	(180)
Closing value	**(1,444)**	**(1,263)**

Note E: Employee provisions

Accounting policy

Leave

The liability for employee benefits includes provisions for annual leave and long service leave. No provision has been made for sick leave as sick leave is non vesting and the average sick leave taken in future years by employees of the AOFM is estimated to be less than the annual entitlement for sick leave.

Long service leave and annual leave are measured at the present value of the estimated future payments to be made. In determining the present value, the AOFM commissions a periodic actuarial assessment. The last independent actuarial assessment was conducted in February 2022.

Superannuation

The AOFM contributes to defined benefit superannuation schemes (the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme) and defined contribution schemes on behalf of staff.

The AOFM accounts for its superannuation contributions as if they were defined contribution plans, i.e. it has no ongoing liability to report. The superannuation benefits payable to an employee upon termination of employment with the Australian Government from defined benefit schemes is recognised in the financial statements of the Department of Finance and is settled by the Australian Government in due course.

An on-cost liability is recognised for superannuation contributions and ancillary costs payable on accrued annual leave and long service leave as at the end of the financial year.

Employee provisions ($'000)

	2023	2022
Annual leave	623	663
Long service leave	1,777	1,648
Superannuation on-costs (a)	631	364
Total	**3,031**	**2,675**

(a) The 2022–23 figure includes $272,237 in additional lump sum contributions payable to the Public Sector Superannuation Scheme due to a significant superannuation salary increase for a staff member in 2021–22.

Note F: Lease liabilities

Accounting policy

AASB 16 requires most leases to be recognised under a single lease model, removing the distinction between finance leases and operating leases. It requires lessees to recognise a "right of use asset" and a lease liability on its balance sheet. The AOFM has recognised a lease liability on its obligations arising from the lease of its office premises within the Treasury Building for its expected remaining term. The lease liability was initially measured at the present value of the estimated future lease payments, discounted at the Australian Government's borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method.

Lease liability ($'000)

	2023	2022
Opening value	**4,142**	**4,375**
Amounts recognised in profit or loss:		
Interest expense on lease liability	57	61
Amounts recognised in cash flow:		
Lease payments	(297)	(294)
Closing value	**3,902**	**4,142**
Discounted amount recognised in the Statement of Financial Position:		
Current	253	241
Non-current	3,649	3,901
Total	**3,902**	**4,142**

Future estimated lease payments ($'000)

	2023	2022
Undiscounted cash flows:		
Less than 1 year	307	298
One to five years	1,264	1,245
More than five years	2,707	3,033
Total	**4,278**	**4,576**

Note G: Other provisions

Other provisions are for the restoration costs of the AOFM's leasehold premises on expiry of its lease. The AOFM lease for its office premises ends on 21 December 2025, there are two 5-year extension options exercisable at the AOFM's discretion. The present value of the makegood provision was assessed as at 31 March 2023 in accordance with advice from an independent expert.

Other provisions ($'000)

	2023	2022
Makegood on leasehold premises	583	483
Total	**583**	**483**

Reconciliation of movements in other provisions ($'000)

	2023	2022
Opening balance	483	460
Interest expense on makegood provision	19	-
Re-measurements (a)	81	23
Total	**583**	**483**

(a) In accordance with AASB Interpretation 1: Changes in Existing Decommissioning, Restoration and Similar Liabilities, the provision increment has been recognised as an adjustment to the Asset Revaluation Reserve in Equity.

Note H: Cash flow reconciliation

The following table reconciles the AOFM's operating cash flows as presented in the Statement of Cash Flows to its net cost of services presented in the Statement of Comprehensive Income.

Reconciliation of net cost of services to net operating cash flows ($'000)

	2023	2022
Net cost of services	**(13,791)**	**(13,157)**
Add revenue from Government	16,379	16,513
Adjustments for non-cash items:		
Depreciation and amortisation	595	574
Appropriations extinguished	(2,390)	(177)
Interest on makegood liability	19	-
(Gain) on revaluation of assets	(8)	-
Change in receivables for capital budget items	362	361
Adjustments for changes in assets:		
(Increase) decrease in receivables	(1,292)	(3,927)
(Increase) decrease in supplier prepayments	(64)	75
Adjustments for changes in liabilities:		
Increase (decrease) in supplier payables	18	157
Increase (decrease) in salary and superannuation	57	35
Increase (decrease) in employee provisions	356	(221)
Net cash from operating activities	**241**	**233**

Note I: Appropriations

The following table outlines appropriations for the period and the amount of appropriations utilised for the period.

Annual appropriations ($'000)

	2023	2022
Annual appropriations:		
Outputs (a)	16,737	16,513
Departmental capital budget	377	368
Public Governance, Performance and Accountability Act 2013:		
Section 74 – retained receipts	106	181
Total available for payment	**17,220**	**17,062**
Appropriation applied (current and prior years)	(13,194)	(12,911)
Variance	**4,026**	**4,151**

(a) For 2022–23, $358,000 of departmental operating appropriations were withheld under section 51 of the *Public Governance, Performance and Accountability Act 2013*.

The variance in departmental appropriations available to appropriations applied (spent) is explained by lower than planned staff and supplier costs, including from the management of policy assets.

The following table outlines the unspent balance of appropriations available to the AOFM as at the end of the reporting period.

Unspent departmental annual appropriations ($'000)

	2023	2022
Acts repealed on 1 July 2022:		
Supply Act (No. 1) 2019–20	–	150
Appropriation Act (No. 1) 2019–20	–	27
Sub-total	**–**	**177**
Acts to be repealed on 1 July 2023:		
Supply Act (No. 1) 2020–21	2,153	8,403
Appropriation Act (No. 1) 2020–21	237	7,181
Sub-total	**2,390**	**15,584**
Acts to be repealed on or after 1 July 2024:		
Appropriation Act (No. 1) 2021–22	17,062	17,062
Supply Act (No. 1) 2022–23	7,237	-
Supply Act (No. 3) 2022–23	9,625	-
Sub-total	**33,924**	**17,062**
Total	**36,314**	**32,823**
Represented By:		
Cash at bank	100	100
Appropriations receivable	33,824	32,546
Appropriations extinguished – 1 July	2,390	177
Total	**36,314**	**32,823**

Note J: Budgetary report to outcome comparison

The Budget figures shown in the primary financial statements represent the Budget released in October 2022. The Budget figures are not audited.

Judgement is applied when determining variances requiring explanation. Considerations include the value of the variance, the nature of the item and its usefulness in analysing financial performance.

Significant variances in the departmental financial statements

Departmental expenses for 2022–23 were lower than forecast due to lower staffing costs and supplier costs of $1.6 million and $0.5 million respectively.

In 2022–23 the AOFM set about restoring the agency's establishment size following significant staff turnover in 2021–22 and in early 2022–23. As at 30 June 2023 the AOFM employed a staffing headcount of 49, a substantial increase from 12 months earlier (42 as at 30 June 2022). However, given the gradual restoration of staffing levels, the average staffing level for 2022–23 reached 42 against a forecast of 50. This resulted in lower than anticipated staffing costs.

In 2022–23 the AOFM made no new investments in the SFSF and the value of SFSF investments fell due to deal amortisation, trustees exercising call options to repurchase outstanding securities, and warehouse sponsors replacing the AOFM with private sector investors. The lower investment activity and lower level of assets under management, resulted in lower than forecast investment management fees, legal costs, and investment proposal due diligence and assessment costs.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with:

- the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- Australian Accounting Standards that apply for the reporting period.

The financial statements have been prepared on an historical cost basis, except for certain assets and liabilities which are carried at fair value or on a discounted cash flow basis as required or allowable by relevant accounting standards.

The financial statements are presented in Australian dollars and values are rounded as indicated.

The continued existence of the AOFM in its present form, and with its present outcome and program, is dependent on government policy and on continuing appropriations by Parliament for the AOFM's administration and activities.

New Australian Accounting Standards applicable to the reporting period

During 2022–23 the AOFM adopted all applicable Australian Accounting Standards that became effective during the reporting period. These did not have a material impact on the AOFM's accounts.

One amending standard (*AASB 2021–2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*) was early adopted for the 2022–23 reporting period.

AASB 2021–2 amends AASB 7, AASB 101, AASB 108, AASB 134 and AASB Practice Statement 2. The amending standard requires the disclosure of material rather than significant accounting policies, and clarifies the difference between a change in accounting policy and a change in accounting estimates.

This amending standard does not have a material impact on the AOFM's financial statements for the current reporting period or future periods.

New Australian Accounting Standards applicable in future reporting periods

A number of revised or new Australian Accounting Standards have been issued that are effective for future reporting periods. These are not expected to materially impact the AOFM's accounts.

POST BALANCE DATE EVENTS

No matter, transaction, or event of a material or unusual nature has arisen in the interval between the end of the reporting period (30 June 2023) and the date of signing this report that has significantly affected or may significantly affect the AOFM's operations.

LITIGATION – KATHLEEN O'DONNELL V COMMONWEALTH OF AUSTRALIA AND OTHERS

On 22 July 2020 the Applicant lodged in the Federal Court of Australia (FCA) proceedings against the Commonwealth, the Secretary to the Treasury and the Chief Executive of the AOFM for failure of fiduciary duties, failure of duties of care, and breaches of the *Australian Securities and Commission Act 2001* (ASIC Act) for not disclosing climate change risks in retail investor product disclosure documents for Australian Government Bonds. The Applicant lodged the pleadings as a class action. The Applicant is seeking injunctive relief only.

In June 2021 the Commonwealth lodged an application to strike-out the Applicant's pleadings. On 8 October 2021 the FCA handed down its decision on the strike-out application. The Applicant's pleadings for breach of fiduciary duty and breach of duty of care were struck-out. As a result, the Secretary to the Treasury and the Chief Executive of the AOFM are no longer respondents in the case. The FCA has allowed the pleading as to false and deceptive conduct in financial product disclosure documents (under the ASIC Act) to proceed to trial, and for the proceedings to continue as a class action.

The Applicant's claim is focused on the allegation that the Commonwealth has failed to disclose material climate change price risk Information to those who have acquired certain exchange-traded Australian Government Bonds. The Applicant claims that by failing to include information about climate change risks in Information Statements (prepared by the Commonwealth), the Commonwealth has engaged in conduct, and continues to engage in conduct, in relation to financial services that is misleading or deceptive or is likely to mislead or deceive under the ASIC Act. It is asserted that this is because climate change risks could affect the future price at which the exchange-traded Australian Government Bonds in question are traded.

On 16 December 2021, the Commonwealth filed its defence with the FCA. Following the formal conclusion of discovery processes in September 2022, the Applicant filed a further amended statement of claim with the FCA on December 2022. The Commonwealth lodged a revised defence on 3 March 2023. On 8 May 2023 the Commonwealth and the Applicant participated in mediation before a registrar of the FCA.

On 14 August 2023, the Applicant filed an application with the FCA to settle and discontinue the proceedings with no order as to costs. Subject to FCA approval, the parties have agreed to make a public statement as part of the settlement. A hearing of the matter is scheduled for 11 October 2023.

ANAO AUDIT OPINION

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Australian Office of Financial Management (the Entity) for the year ended 30 June 2023:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Entity as at 30 June 2023 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following as at 30 June 2023 and for the year then ended:

- Statement by the Chief Executive Officer and Chief Operating and Finance Officer;
- Administered schedule of comprehensive income;
- Administered schedule of assets and liabilities;
- Administered reconciliation schedule;
- Administered cash flow statement
- Statement of comprehensive income;
- Statement of financial position;
- Statement of changes in equity;
- Statement of cash flows; and
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Entity in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter	
Valuation of Australian Government Securities	**How the audit addressed the matter**
Refer to Administered Notes 1 'Financial Risk Management', 2 'Treasury Bonds', 3 'Treasury	The audit procedures that I applied to address the matter included:

GPO Box 707, Canberra ACT 2601
38 Sydney Avenue, Forrest ACT 2603
Phone (02) 6203 7300

Indexed Bonds' and 4 'Treasury Notes'
 	
The Entity issues Australian Government Securities (AGS) on behalf of the Commonwealth Government. The securities primarily comprise treasury bonds, treasury indexed bonds and treasury notes. I consider the valuation of AGS to be a key audit matter due to:
 	
• the significant value of AGS relative to the Entity's Administered Schedule of Assets and Liabilities ($825,542 million at 30 June 2023). There is a range of AGS issued and measured at fair value; and
 	
• the variety of methodologies used to determine the fair value of financial instruments. These methodologies include the use of assumptions relating to forward yield curves, the consumer price index and discount rates.
	• testing the design, implementation and operating effectiveness of relevant controls related to the issuance of AGS;
	
	• testing the design, implementation, and operating effectiveness of relevant controls in relation to the ongoing assessment and recalculation of market valuations of securities; and
	
	• assessing the valuation of AGS at 30 June 2023, using the following procedures:
	
	  o agreeing the face values and coupon rates of treasury bonds, treasury indexed bonds and treasury notes to independent third party reports; and
	
	  o assessing the reasonableness of the yield to maturity assumption on securities, relative to market interest rates and performing a recalculation of the fair value of AGS for issued treasury bonds, treasury indexed bonds and treasury notes.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Entity, the Chief Executive Officer is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under the Act. The Chief Executive Officer is also responsible for such internal control as the Chief Executive Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the ability of the Entity to continue as a going concern, taking into account whether the Entity's operations will cease as a result of an administrative restructure or for any other reason. The Chief Executive Officer is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Accountable Authority, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir

Grant Hehir
Auditor-General for Australia

Canberra

25 August 2023

PART 5: AIDS TO ACCESS

COMPLIANCE WITH ANNUAL REPORT REQUIREMENTS

PGPA rule reference	Part of report	Description	Requirement
17AD(g)	**Letter of transmittal**		
17AI		A copy of the letter of transmittal signed and dated by accountable authority on date final text approved, with statement that the report has been prepared in accordance with section 46 of the Act and any enabling legislation that specifies additional requirements in relation to the annual report.	Mandatory
17AD(h)	**Aids to access**		
17AJ(a)		Table of contents (print only).	Mandatory
17AJ(b)		Alphabetical index (print only).	Mandatory
17AJ(c)		Glossary of abbreviations and acronyms.	Mandatory
17AJ(d)		List of requirements.	Mandatory
17AJ(e)		Details of contact officer.	Mandatory
17AJ(f)		Entity's website address.	Mandatory
17AJ(g)		Electronic address of report.	Mandatory
17AD(a)	**Review by accountable authority**		
17AD(a)		A review by the accountable authority of the entity.	Mandatory
17AD(b)	**Overview of the entity**		
17AE(1)(a)(i)		A description of the role and functions of the entity.	Mandatory
17AE(1)(a)(ii)		A description of the organisational structure of the entity.	Mandatory
17AE(1)(a)(iii)		A description of the outcomes and programmes administered by the entity.	Mandatory
17AE(1)(a)(iv)		A description of the purposes of the entity as included in corporate plan.	Mandatory
17AE(1)(aa)(i)		Name of the accountable authority or each member of the accountable authority	Mandatory

PGPA rule reference	Part of report	Description	Requirement
17AE(1)(aa)(ii)		Position title of the accountable authority or each member of the accountable authority	Mandatory
17AE(1)(aa)(iii)		Period as the accountable authority or member of the accountable authority within the reporting period	Mandatory
17AE(1)(b)		An outline of the structure of the portfolio of the entity.	Portfolio departments – mandatory
17AE(2)		Where the outcomes and programs administered by the entity differ from any Portfolio Budget Statement, Portfolio Additional Estimates Statement or other portfolio estimates statement that was prepared for the entity for the period, include details of variation and reasons for change.	If applicable, Mandatory
17AD(c)	**Report on the performance of the entity**		
	Annual performance statements		
17AD(c)(i); 16F		Annual performance statement in accordance with paragraph 39(1)(b) of the Act and section 16F of the Rule.	Mandatory
17AD(c)(ii)	**Report on financial performance**		
17AF(1)(a)		A discussion and analysis of the entity's financial performance.	Mandatory
17AF(1)(b)		A table summarising the total resources and total payments of the entity.	Mandatory
17AF(2)		If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including: the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results.	If applicable, Mandatory.
17AD(d)	**Management and accountability**		
	Corporate governance		
17AG(2)(a)		Information on compliance with section 10 (fraud systems)	Mandatory

PGPA rule reference	Part of report	Description	Requirement
17AG(2)(b)(i)		A certification by accountable authority that fraud risk assessments and fraud control plans have been prepared.	Mandatory
17AG(2)(b)(ii)		A certification by accountable authority that appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place.	Mandatory
17AG(2)(b)(iii)		A certification by accountable authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity.	Mandatory
17AG(2)(c)		An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance.	Mandatory
17AG(2)(d) – (e)		A statement of significant issues reported to Minister under paragraph 19(1)(e) of the Act that relates to noncompliance with Finance law and action taken to remedy noncompliance.	If applicable, Mandatory
	Audit committee		
17AG(2A)(a)		A direct electronic address of the charter determining the functions of the entity's audit committee.	Mandatory
17AG(2A)(b)		The name of each member of the entity's audit committee.	Mandatory
17AG(2A)(c)		The qualifications, knowledge, skills or experience of each member of the entity's audit committee.	Mandatory
17AG(2A)(d)		Information about the attendance of each member of the entity's audit committee at committee meetings.	Mandatory
17AG(2A)(e)		The remuneration of each member of the entity's audit committee.	Mandatory
	External scrutiny		
17AG(3)		Information on the most significant developments in external scrutiny and the entity's response to the scrutiny.	Mandatory
17AG(3)(a)		Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity.	If applicable, Mandatory

PGPA rule reference	Part of report	Description	Requirement
17AG(3)(b)		Information on any reports on operations of the entity by the Auditor-General (other than report under section 43 of the Act), a Parliamentary Committee, or the Commonwealth Ombudsman.	If applicable, Mandatory
17AG(3)(c)		Information on any capability reviews on the entity that were released during the period.	If applicable, Mandatory
	Management of human resources		
17AG(4)(a)		An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives.	Mandatory
17AG(4)(aa)		Statistics on the entity's employees on an ongoing and non-ongoing basis, including the following: (a) statistics on full-time employees; (b) statistics on part-time employees; (c) statistics on gender (d) statistics on staff location	Mandatory
17AG(4)(b)		Statistics on the entity's APS employees on an ongoing and non-ongoing basis; including the following: • Statistics on staffing classification level; • Statistics on full-time employees; • Statistics on part-time employees; • Statistics on gender; • Statistics on staff location; • Statistics on employees who identify as Indigenous.	Mandatory
17AG(4)(c)		Information on any enterprise agreements, individual flexibility arrangements, Australian workplace agreements, common law contracts and determinations under subsection 24(1) of the *Public Service Act 1999*.	Mandatory
17AG(4)(c)(i)		Information on the number of SES and non-SES employees covered by agreements etc identified in paragraph 17AG(4)(c).	Mandatory
17AG(4)(c)(ii)		The salary ranges available for APS employees by classification level.	Mandatory
17AG(4)(c)(iii)		A description of non-salary benefits provided to employees.	Mandatory
17AG(4)(d)(i)		Information on the number of employees at each classification level who received performance pay.	If applicable, Mandatory

PGPA rule reference	Part of report	Description	Requirement
17AG(4)(d)(ii)		Information on aggregate amounts of performance pay at each classification level.	If applicable, Mandatory
17AG(4)(d)(iii)		Information on the average amount of performance payment, and range of such payments, at each classification level.	If applicable, Mandatory
17AG(4)(d)(iv)		Information on aggregate amount of performance payments.	If applicable, Mandatory
	Assets management		
17AG(5)		An assessment of effectiveness of assets management where asset management is a significant part of the entity's activities	If applicable, mandatory
	Purchasing		
17AG(6)		An assessment of entity performance against the *Commonwealth Procurement Rules*.	Mandatory
	Reportable consultancy contracts		
17AG(7)(a)		A summary statement detailing the number of new reportable consultancy contracts entered into during the period; the total actual expenditure on all such contracts (inclusive of GST); the number of ongoing reportable consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting period on those ongoing contracts (inclusive of GST).	Mandatory
17AG(7)(b)		A statement that "*During [reporting period], [specified number] new reportable consultancy contracts were entered into involving total actual expenditure of $[specified million]. In addition, [specified number] ongoing reportable consultancy contracts were active during the period, involving total actual expenditure of $[specified million]*".	Mandatory
17AG(7)(c)		A summary of the policies and procedures for selecting and engaging consultants and the main categories of purposes for which consultants were selected and engaged.	Mandatory
17AG(7)(d)		A statement that "*Annual reports contain information about actual expenditure on reportable consultancy contracts. Information on the value of reportable consultancy contracts is available on the AusTender website.*"	Mandatory

PGPA rule reference	Part of report	Description	Requirement
	Reportable non-consultancy contracts		
17AG(7A)(a)		A summary statement detailing the number of new reportable non-consultancy contracts entered into during the period; the total actual expenditure on such contracts (inclusive of GST); the number of ongoing reportable non-consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting period on those ongoing contracts (inclusive of GST).	Mandatory
17AG(7A)(b)		A statement that "*Annual reports contain information about actual expenditure on reportable non-consultancy contracts. Information on the value of reportable non-consultancy contracts is available on the AusTender website.*"	Mandatory
17AD(daa)	**Additional information about organisations receiving amounts under reportable consultancy contracts or reportable non-consultancy contracts**		
17AGA		Additional information, in accordance with section 17AGA, about organisations receiving amounts under reportable consultancy contracts or reportable non-consultancy contracts.	Mandatory
	Australian National Audit Office access clauses		
17AG(8)		If an entity entered into a contract with a value of more than $100 000 (inclusive of GST) and the contract did not provide the Auditor-General with access to the contractor's premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract.	If applicable, Mandatory
	Exempt contracts		
17AG(9)		If an entity entered into a contract or there is a standing offer with a value greater than $10 000 (inclusive of GST) which has been exempted from being published in AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters.	If applicable, Mandatory

PGPA rule reference	Part of report	Description	Requirement
	Small business		
17AG(10)(a)		A statement that *"[Name of entity] supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website."*	Mandatory
17AG(10)(b)		An outline of the ways in which the procurement practices of the entity support small and medium enterprises.	Mandatory
17AG(10)(c)		If the entity is considered by the Department administered by the Finance Minister as material in nature—a statement that "*[Name of entity] recognises the importance of ensuring that small businesses are paid on time. The results of the Survey of Australian Government Payments to Small Business are available on the Treasury's website*."	If applicable, Mandatory
	Financial statements		
17AD(e)		Inclusion of the annual financial statements in accordance with subsection 43(4) of the Act.	Mandatory
	Executive remuneration		
17AD(da)		Information about executive remuneration in accordance with Subdivision C of Division 3A of Part 2-3 of the Rule.	Mandatory

PGPA rule reference	Part of report	Description	
17AD(f)	**Other mandatory information**		
17AH(1)(a)(i)		If the entity conducted advertising campaigns, a statement that *"During [reporting period], the [name of entity] conducted the following advertising campaigns: [name of advertising campaigns undertaken]. Further information on those advertising campaigns is available at [address of entity's website] and in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available on the Department of Finance's website."*	If applicable, Mandatory
17AH(1)(a)(ii)		If the entity did not conduct advertising campaigns, a statement to that effect.	If applicable, Mandatory
17AH(1)(b)		A statement that *"Information on grants awarded by [name of entity] during [reporting period] is available at [address of entity's website]."*	If applicable, Mandatory
17AH(1)(c)		Outline of mechanisms of disability reporting, including reference to website for further information.	Mandatory
17AH(1)(d)		Website reference to where the entity's Information Publication Scheme statement pursuant to Part II of FOI Act can be found.	Mandatory
17AH(1)(e)		Correction of material errors in previous annual report	If applicable, mandatory
17AH(2)		Information required by other legislation	Mandatory

ALPHABETICAL INDEX

GLOSSARY OF ABBREVIATIONS

AAIs	Accountable Authority Instructions
AASB	Australian Accounting Standards Board
ABE	Australian Business Economists
ABS	Asset-Backed Securities
ABSF	Australian Business Securitisation Fund
ABSF Act	Australian Business Securitisation Fund Act 2019
ACT	Australian Capital Territory
ADB	Asian Development Bank
AFMA	Australian Financial Markets Association
AGS	Australian Government Securities
ANAO	Australian National Audit Office
ANZ	Australia and New Zealand Banking Group Limited
AOFM	Australian Office of Financial Management
APS	Australian Public Service
APSC	Australian Public Service Commission
ASF	Australian Securitisation Forum
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUD	Australian Dollar
BA	Bachelor of Arts
BBSW	Bank Bill Swap Rate
BC	Business Continuity
BDS	Business and Data Systems
BEc	Bachelor of Economics
bps	Basis Points
CEO	Chief Executive Officer
CIS Act	Commonwealth Inscribed Stock Act 1911
CMA	Cash Management Account
CMP	Cash Management Portfolio
COFO	Chief Operating and Finance Officer
COP28	2023 United Nations Climate Change Conference
CPA	Certified Public Accountant
CPI	Consumer Price Index
CPRs	Commonwealth Procurement Rules
CRAO	Chief Risk and Assurance Officer
Cth	Commonwealth
DFAT	Department of Foreign Affairs and Trade
DRRTA	Debt Retirement Reserve Trust Account
ECL	Expected Credit Losses
ELG	Executive Leadership Group
ESG	Environmental, Social and Governance
FA Act	Financial Agreement Act 1994
FAICD	Fellow of the Australian Institute of Company Directors

FCA	Federal Court of Australia
FIPAA	Fellow of Institute of Public Administration Australia
FOI	Freedom of Information
FOI Act	Freedom of Information Act 1982
fSPV	Forbearance Special Purpose Vehicle
FTE	Full-time equivalent
FV	Face value
GFC	Global Financial Crisis
GST	Goods and Services Tax
IMF	International Monetary Fund
IPS	Information Publication Scheme
IT	Information Technology
KMP	Key Management Personnel
LS Act	Loan Securities Act 1919
LTDP	Long-Term Debt Portfolio
MBA	Master of Business Administration
MYEFO	Mid-Year Economic and Fiscal Outlook
NAB	National Australia Bank
NSW	New South Wales
NT	Northern Territory
OECD	Organisation for Economic Cooperation and Development
OIS	Overnight Indexed Swap
OPA	Official Public Account
PBS	Portfolio Budget Statement
PGPA	Public Governance, Performance and Accountability
PGPA Act	Public Governance, Performance and Accountability Act 2013
PS Act	Public Service Act 1999
QLD	Queensland
RBA	Reserve Bank of Australia
SA	South Australia
SES	Senior Executive Service
SFS Act	Structured Finance Support (Coronavirus Economic Response Package) Act 2020
SFSF	Structured Finance Support Fund
SMEs	Small and Medium Enterprises
TAS	Tasmania
TIBs	Treasury Indexed Bonds
T-Notes	Treasury Notes
UBS	Union Bank of Switzerland
US	United States of America
USTs	US Treasuries
VIC	Victoria
WA	Western Australia
WAM	Weighted Average Maturity
WHS Act	Work Health and Safety Act 2011