AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Annual Report 2021–22

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 2022. 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

ISSN 2204-0838 (print) | ISSN 2204-0846 (online)

Communications Manager
Australian Office of Financial Management
Treasury Building, Newlands Street, Parkes, ACT 2600, Australia
Email: enquiries@aofm.gov.au

LETTER OF TRANSMITTAL

21st September 2022

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 2022.

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 2021-22.

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

Rob Nicholl

Rob Nicholl

Chief Executive Officer

CONTENTS

2021–22 activities at a glance

DEBT ISSUANCE

Bond issuance program met

$96b of Treasury Bonds issued

$5b of Treasury Indexed Bonds issued

$98b of Treasury Notes issued

COVERAGE RATIOS AT TENDERS

Tender issuance readily achieved

3.9 for Treasury Bonds

3.6 for Treasury Indexed Bonds

5.1 for Treasury Notes

AVERAGE YIELD OF ISSUANCE

Low rates for much of year

1.91% for Treasury Bonds

-0.49%* for Treasury Indexed Bonds (*real yield)

0.24% for Treasury Notes

BALANCED COSTS AND RISKS OF ISSUANCE

8.6 years weighted average maturity of Treasury Bond issuance

All government expenditure requirements met

No overdraft facility use

HIGH CASH LIQUIDITY MAINTAINED

$94b	$51b	$29b
maximum	average	minimum

SUPPORT TO SME LENDERS

3 investments held by ABSF

COVID-19 SUPPORT OF NON-BANK LENDERS

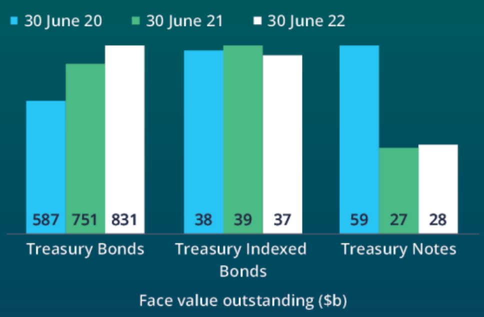
22 warehouse facilities exited by SFSF

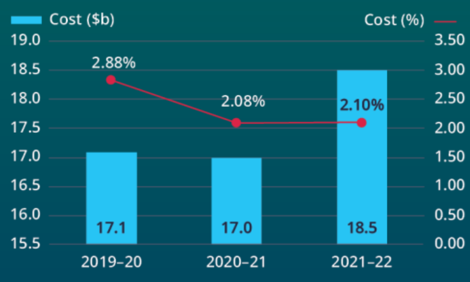
COVID-19 FORBEARANCE SUPPORT

5 non-bank originators supported by Forbearance SPV

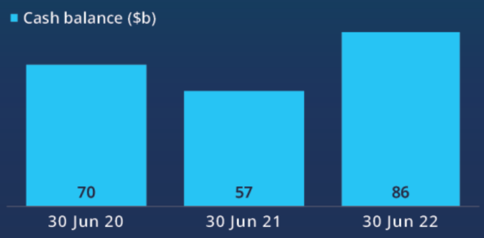
Portfolio at a glance

AUSTRALIAN GOVERNMENT SECURITIES

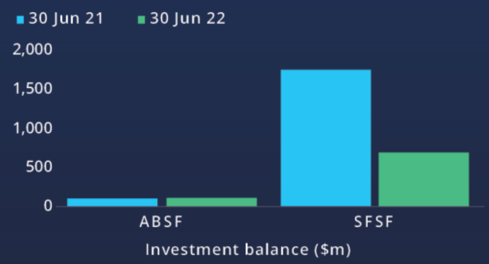




CASH



ABSF & SFSF INVESTMENTS



76%

Treasury Bonds maturing beyond 3 years

7 years

weighted average maturity of Treasury Bond portfolio

PART 1: OVERVIEW

A. CHIEF EXECUTIVE OFFICER'S REVIEW

2021-22 was a successful year for the AOFM. The borrowing program was comfortably completed, and cash portfolio balances remained above the minimum set by the AOFM. Work resumed on the Australian Business Securitisation Fund (ABSF) with a mix of new proposals and several enquiries to transfer support from the Structured Finance Support Fund (SFSF); all have been progressed. Furthermore, replacement (by third party proponents) of SFSF investments that were approved during the early stages of the pandemic continued in line with recovery of domestic capital market conditions.

Some challenges for 2021-22 were like those of the previous year, a few were different. Similar challenges included: calibrating the borrowing program to balance consistency in issuance advice to the market, with Budget revenue strength experienced throughout the year; and balancing public health guidelines for office attendance with staff expectations for ongoing work from home arrangements. On the former, clear consistent AOFM communication on the use of issuance flexibility appears to have been well received and appropriately interpreted by intermediaries and investors. As to the latter, a principles-based policy was developed from detailed internal consultation; the policy was implemented as soon as government work from home directives were lifted.

2021-22 also brought some new challenges - one was high turnover of staff; the other was a substantial sell-off in bond markets globally, which has been characterised by prolonged high-level volatility.

On average, annual staff turnover at the AOFM is around 19 per cent. In 2021-22, there were 16 separations and turnover was 36 per cent. Given the specialist nature of the AOFM's work, the lure of well-remunerated opportunities in the private sector or at the RBA is ever present. Also, many recruits are graduates who will tend to look outside AOFM for promotional opportunities and diversity of experience after 3-5 years on average. We see this latter situation as functional rather than a threat, and in recognition the AOFM has for a long time invested in business resiliency through exposing staff to various aspects of its operations. However, with such a large turnover last year, substantial time and effort was required to fill vacancies. This delayed non-urgent and non-critical tasks. With a much tighter labour market, there was also the risk some positions could be vacant for extended periods. In the event, a tight focus on restoring the AOFM's staffing complement was successful and although numerous candidate fields were narrower than usual, the AOFM recruited high quality staff.

In the second quarter of the year, the realisation that elevated levels of inflation would persist caused bond markets to materially re-price. The extent to which yields rose and the bouts of volatility associated with that re-pricing were unprecedented. In early calendar 2022 (the third quarter), another sell-off in bond markets was triggered by expectations that high inflation was going to require even more significant monetary policy responses. Yields on 10-year Treasury Bonds at year-end were around 2.2 per cent higher than at the start of the year. At times, market volatility noticeably narrowed weekly issuance options; nonetheless, the issuance strategy for the year was met (at the lower bound of the target range).

Forming an issuance strategy for next year was challenging given how quickly the cost of issuance has increased. This has highlighted the trade-off between cost and risk in a manner not experienced since the Global Financial Crisis (GFC). The outlook for monetary policy responses and market volatility both remained dominant issues as the year closed and 2022-23 began. However, the AOFM remains well positioned to deal with an uncertain outlook and likely periods of continuing market volatility ahead.

Recognition of the AOFM's ability to implement programs to support securitisation markets was highlighted by a Public Service Medal awarded to a staff member. Michael Bath was noted for his contributions during the GFC and the COVID-19 pandemic.

This is the last AOFM annual report I will oversee. Financial markets, and indeed the borrowing programs, have changed substantially since I arrived in 2011. The AOFM is now a well-known agency, not just in the Australian debt capital market but internationally. It is also recognised within the Organisation for Economic Co-operation and Development (OECD) forum as highly capable in understanding financial market dynamics and meaningful engagement with intermediaries and investors. The AOFM has led by example in developing its approach to transacting in markets over the years. In addition, its deep understanding of securitisation markets has on several critical occasions allowed it to quickly and smoothly implement important government policies in support of this sector of the market. The AOFM's technical strength is complemented by deep and broad market networks that have enhanced its understanding of program implementation challenges; this was never more apparent than during the COVID-19 pandemic.

None of this has relied on good luck. Having spent several decades at the senior executive level, I am hard pressed to find a more dedicated, capable, and hardworking team with a strong collective sense of purpose. My time at the AOFM has been one of continual learning and any luck involved feels to have been mine for having had the opportunity to be in the role during a period of such significant change. It was also my good fortune to be guided by people who are highly professional, patient, methodical, supportive, and very experienced and informed. I have learned a lot from them.

B. ROLE AND ACTIVITIES

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

The AOFM is the sovereign debt manager for the Australian Government. It is 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 2 main responsibilities. One is to ensure the government can always meet its financial obligations (otherwise known as 'cash management'). The other is to manage the government's debt portfolio by prudently balancing risks and costs over time (otherwise known as 'debt management').

The AOFM is aware of its potential to impact sectors of capital markets by its actions as an issuer of government debt and also as an investor on behalf of the government – specifically in the Australian securitisation market.

The AOFM's core responsibilities were unchanged during 2021-22: 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.

The AOFM's own operations are funded by Australian Government budget appropriations.

Our vision

Excellence in sovereign financial management.

Our mission

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

Our purposes

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

Ensure the government can always meet its cash outlay requirements.

Conduct market facing activities in a manner that supports a well-functioning Australian Government Securities market.

Meet the priorities of the Australian Business Securitisation Fund and the Structured Finance Support Fund.

Our values

The AOFM's values set the foundation for all actions and behaviours. These values are as follows.

- **Integrity** – we are professional, respectful, transparent, and impartial.
- **Results focused** – we demonstrate a thorough understanding of our responsibilities, take pride in our work and are accountable for our decisions.
- **Responsiveness** – we consult meaningfully, and demonstrate initiative, collaboration, and agility.
- **Excellence** – we focus on achieving outstanding results and building capability through cultivating and empowering talent.
- **Clarity** – we communicate in a straightforward and timely manner.

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.

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 or MYEFO). The AOFM updates its issuance program for the Budget year at this time.

The AOFM's debt management strategy

As part of the Budget process, the AOFM establishes a **debt management strategy** for the Budget year.

The debt management strategy sets out how the AOFM plans 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, the AOFM's 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 the trading of AGS 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.

FINANCIAL MARKET INTERMEDIARIES

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

DOMESTIC AND INTERNATIONAL INVESTORS

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

In circumstances where a high-volume transaction is required and the AOFM judges execution risk to be elevated, the AOFM 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.

C. ORGANISATIONAL STRUCTURE

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

Front office

The front office 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. The cash management task is also managed in the front office.

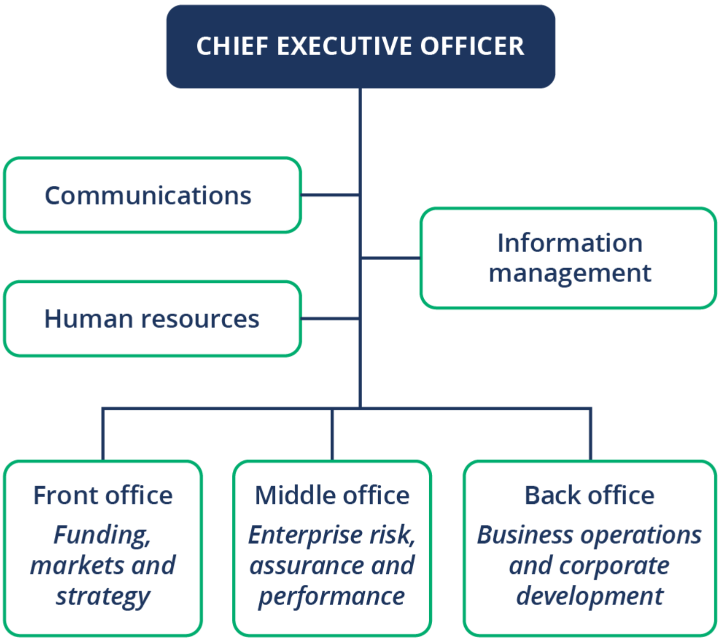
Middle office

The middle office 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 AOFM business activities.

Back office

The back office comprises financial reporting, settlements, agency administrative support and executive support for the Chief Executive Officer (CEO). It is also 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, and manages procurement and vendor risk, outsourced debt registry services and parliamentary liaison support.

Communications, information management and human resources are managed by the Office of the CEO. This function sits outside the 3 'offices' described above.



PART 2: PERFORMANCE STATEMENT

A. STATEMENT OF PREPARATION

As the accountable authority of the Australian Office of Financial Management (AOFM), I present the 2021-22 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.

Rob Nicholl

Chief Executive Officer

21st September 2022

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 the agency's risk aware culture.

An efficient sovereign debt market improves the resilience of the financial system to economic and financial market shocks. Through its 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 in times of 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 face value of the bond.

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 inflation-adjusted value of the bond. 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 Australian Business Securitisation Fund (ABSF), the Structured Finance Support Fund (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 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.

---

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

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 small and medium-sized enterprises (SMEs) 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.

The primary cost measure used is accrual debt servicing cost

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 the AOFM only considers 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. The AOFM is 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 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 Group monitors performance measures on a quarterly basis and also reports progress to the AOFM Audit Committee. The AOFM's 2021-22 Corporate Plan is available on the AOFM website.

AOFM purposes are linked to key activities. In turn, key activities 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

Performance measures				Target
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
		1.4.2	**Financing cost – portfolio:** the cost of the long-term debt portfolio compared to the 10-year average of the 10-year Treasury Bond rate.	Lower
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 Australian Government Securities (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

Performance measures				Target
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 Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (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

Performance measures denoted with * have been added since the publication of the AOFM's 2021-22 Corporate Plan in August 2021 and are effective from 1 July 2022. Although not required, the AOFM has elected to report against these for 2021-22.

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

The Budget financing task was impacted by the COVID-19 pandemic

While the Government's funding requirement in 2021-22 remained elevated due in part to the ongoing impact of the pandemic, it was ultimately lower than initially expected due to the strength of the economic recovery following a series of widespread lockdowns and border closures during the second half of 2021.

Through the first half of the year, the dominant market view was that emerging inflationary pressures would be transitory. This, coupled with ongoing quantitative easing from the RBA and other central banks, ensured bond yields remained range bound at relatively low levels.

This changed at the start of 2022 as central banks globally began to react to a more sustained rise in inflation, which was driven by a combination of strong consumer demand, continuing supply shortages and rising energy prices. In anticipation of a change in monetary policy settings, financial market trading began to reflect an expectation of aggressive cash rate increases. Bond yields were, as a result, more than 2 per cent higher by the end of 2021-22. Accompanying this large sell-off in bond markets was considerable volatility.

Over the course of the year, the AOFM's financing task fell because of higher than forecast commodity prices and employment levels, which led to stronger tax receipts. As a result, the AOFM revised issuance plans twice over the course of the year, issuing around $30 billion less than projected at the 2021-22 Budget.

The lower call on the market was ultimately judged to be beneficial for smooth absorption of what was, by historical standards, a large issuance program during a prolonged period of heightened market volatility.

The AOFM continued to support the securitisation market

Favourable credit conditions, particularly through the first half of 2021-22, meant the SFSF was able to exit several private revolving warehouse facilities through the course of the year.

However, the Australian securitisation market was not immune to the broader deterioration in financial markets that occurred in the last quarter of 2021-22. Market uncertainty slowed the rate of exits from warehouse facilities by the SFSF.

Separately, the AOFM continued its work to encourage the development of the Australian securitisation industry to support the financing of new kinds of lending to SMEs. The publication of a template for capturing loan performance data represented a key milestone in this sector.

PERFORMANCE ASSESSMENT: PURPOSE 1

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

Purpose 1

How Purpose 1 is achieved

The financing task is achieved through Australian Government Securities (AGS) issuance, guided by an annual debt management strategy to balance portfolio risks (such as future interest rate volatility and funding risks) and borrowing costs.

Debt management considerations include issuance cost and interest cost variability over time, changes to investor demand for sovereign debt, financial market conditions, the size of the financing task, funding risk and the need for funding diversification. 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. The AOFM must also ensure its 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 also require short-term decision making that takes account of prevailing market conditions. Regular weekly issuance decisions are made on the basis of assessing prevailing market conditions against what the annual debt management strategy requires on average throughout the year.

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 via competitive tender. Syndication is reserved for situations in which execution risk is high due to large issuance volume or the need to establish new long-dated bond lines.

Table 2: Summary of performance for Purpose 1

Performance measures		2021-22 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		2021-22 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	Met
1.4.2	**Financing cost – portfolio:** the cost of the long-term debt portfolio compared to the 10-year average of the 10-year Treasury Bond rate.	Lower	Met

Performance measures denoted with * have been added since the publication of the AOFM's 2021-22 Corporate Plan in August 2021 and are effective from 1 July 2022. Although not required, the AOFM has elected to report against these for 2021-22.

Purpose 1

Key Activity 1.1: Establish a debt management strategy

An annual debt management strategy sets out parameters for AOFM borrowing activities, including the volume and average maturity of issuance. It also includes the mix of funding instruments to be used. The Secretary to the Treasury is briefed on and endorses the strategy each year.

The 2021-22 debt management strategy was formulated in an environment of low yields, a steep yield curve, uncertainty as to the ongoing fiscal impact of the pandemic and the need for regular shorter-dated issuance to assist with market functioning.

At the time the strategy was set, the size of the annual financing task, market volatility, growing concerns about inflation and limited investor appetite for duration risk (from holding long maturity bonds) were viewed as possible constraints to achieving a longer weighted average maturity (WAM) similar to the long issuance bias of previous years.

Performance for Key Activity 1.1

Indicator 1.1.1 Annual debt management strategy

> The target for formulating and advising the Secretary to the Treasury of the annual debt management strategy was met.

In May 2021, the Secretary to the Treasury approved the 2021-22 debt management strategy, including a target for the WAM for Treasury Bond issuance.

Key Activity 1.2: Execute the debt issuance program

AOFM issuance is via competitive tenders and occasionally by syndication. In making weekly issuance decisions, the AOFM takes 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 centrepiece of the AOFM's debt issuance program.

Treasury Bond issuance for the year totalled $96 billion, of which $81 billion was issued by tender and $15 billion by syndication. Net issuance was $79.6 billion, compared with $163.8 billion the previous year. 2021-22 issuance represented a significant decrease from the $207.3 billion issued in 2020-21 as fiscal support related to the pandemic expired or was withdrawn.

A new bond line maturing in November 2033 was established by syndication in 2021-22. Around 16 per cent of total Treasury Bond issuance for the year was into the new 2033 bond line.

Syndications in 2021-22

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. The AOFM sets the pricing according to market indicators, the total volume to be issued according to its 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 in particular when establishing new bond lines. They are used primarily to manage execution risk.

During 2021-22, the AOFM paid $16.1 million (including GST) to conduct one syndication of Treasury Bonds and one syndication of Treasury Indexed Bonds (TIBs), raising more than $18.2 billion in proceeds. All syndication contracts are reported on AusTender.

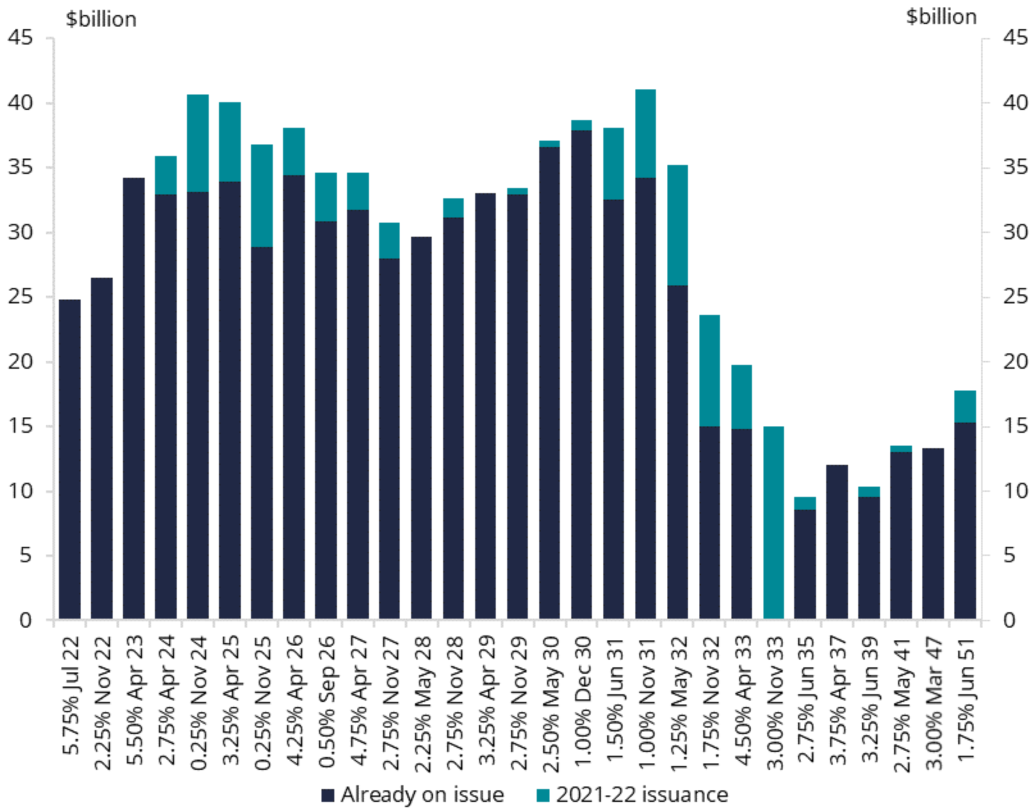
Chart 1: Treasury Bonds – issuance by financial year

Purpose 1

During 2021-22, one to two Treasury Bond tenders were held most weeks. Issuance via tender continued to be concentrated into maturities that form the 3-year and 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 29 Treasury Bond lines on issue at the end of 2021-22, 3 with more than $40 billion on issue and a further 14 with more than $30 billion. Chart 2 shows Treasury Bonds outstanding as at 30 June 2022 and the allocation of issuance across bond lines during 2021-22.

Chart 2: Treasury Bonds outstanding at 30 June 2022



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 $5.25 billion, comprising $2 billion by tender and $3.25 billion by syndication (Chart 3). Two tenders were held in most months. The AOFM established a new TIB maturing in November 2032 by syndication.

Chart 3: Treasury Indexed Bonds – issuance by financial year

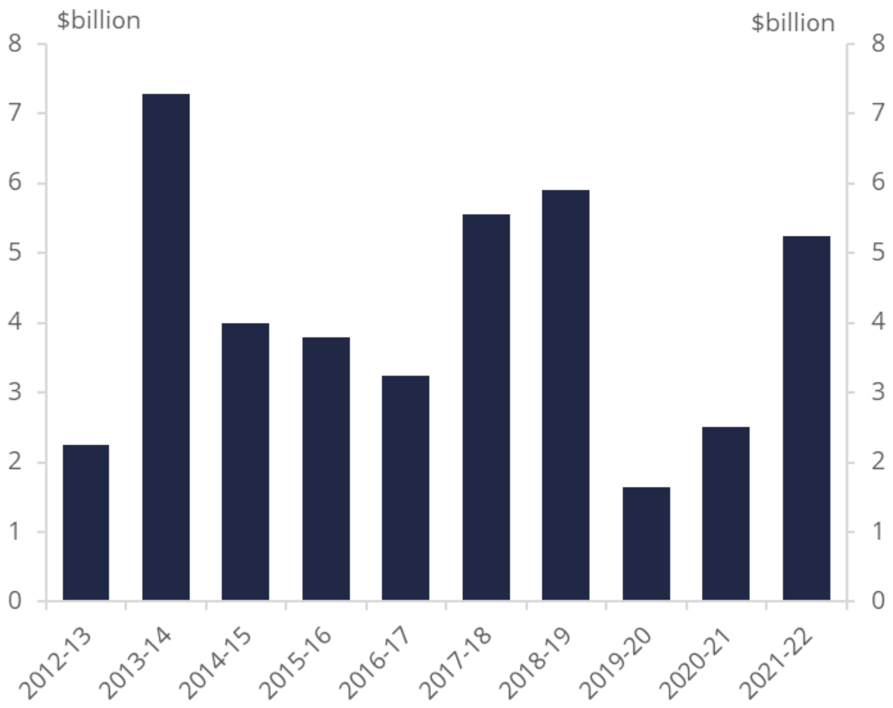
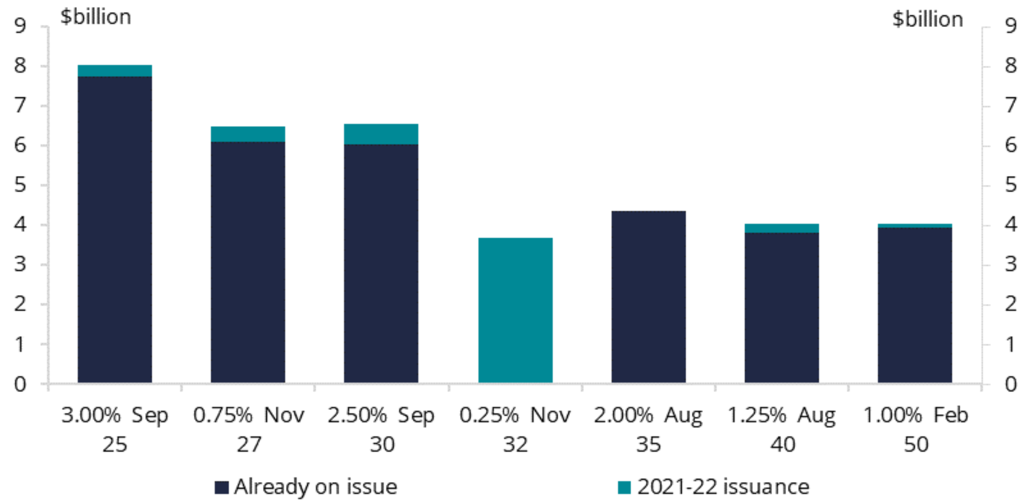


Chart 4 shows the amount outstanding in each of the 7 TIB lines at 30 June 2022 and the allocation of issuance during the 2021-22 year.

Purpose 1

Chart 4: Treasury Indexed Bonds outstanding at 30 June 2022 and issuance during 2021-22



TIBs comprise around 4 per cent of the Long-Term Debt Portfolio (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 2021-22 Budget and updated at subsequent official releases. In 2021-22, the AOFM issued $96 billion of Treasury Bonds, as compared with initial guidance of around $130 billion when the 2021-22

Budget was announced. This was revised down to around $110 billion at the 2021-22 Mid-Year Economic and Fiscal Outlook (MYEFO) and further reduced to around $100 billion at the release of the 2022-23 Budget in March 2022, in line with downward revisions to the funding task.

While actual 2021-22 issuance was $4 billion less than final $100 billion guidance given at the March 2022 Budget, the budget deficit decreased by considerably more than this. AOFM holdings of cash assets at year-end were higher than forecast as a result.

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 2021-22 were below secondary mid-market yields for Treasury Bonds (by 0.74 basis points) and TIBs (by 1.51 basis points). This compares with 0.64 basis points and 1.69 basis points respectively in 2020-21.

Treasury Bonds

> Treasury Bond tenders were strongly bid in 2021-22.

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 ($m)	Average spread to secondary market yield (basis points)	Average times covered
0-2	-	n/a	n/a
2-5	31,800	-1.06	4.51
5-9	8,400	-0.67	4.47
9-12	36,100	-0.46	3.77
12+	4,700	-0.82	2.39
Total/Average	**81,000**	**-0.74**	**3.92**

Treasury Indexed Bonds

TIB tenders were competitive during 2021-22.

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 for all maturity groupings.

Table 4: Summary of Treasury Indexed Bond tender results

Maturity (years)	Face value amount allocated ($m)	Average spread to secondary market yield (basis points)	Average times covered
0-5	300	-2.18	4.30
5-10	900	-1.33	3.62
10-20	700	-1.44	3.33
20+	100	-1.93	3.10
Total/Average	**2,000**	**-1.51**	**3.58**

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 2021-22 was 4.43.

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 2021-22 was 3.92 (refer to Table 3 above), down from 4.29 in 2020-21. The average tender size of $910 million was smaller than the $1.46 billion in 2020-21.

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 slightly lower in 2021-22, 3.58 (refer to Table 4 above) compared with 4.52 in 2020-21. The average tender size was $125 million in 2021-22, compared with $138 million in 2020-21.

Treasury Notes (T-Notes)

T-Note issuance attracted strong demand throughout the year. The average coverage ratio at tenders was around 5, a decrease from around 6 in 2020-21. Yields were on average 2 basis points lower than overnight indexed swap (OIS) rates for corresponding tenors (compared with around one basis point higher than OIS rates in 2020-21).

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	31,500	-2.24	5.07
3-6	55,000	-1.99	4.79
6+	12,000	-3.48	6.00
Total/Average	**98,500**	**-2.30**	**5.06**

Purpose 1

Key Activity 1.3: Settle transactions and coupon and redemption payments

> Austraclear is central to the settlement of AGS transactions. It is important that transactions settle on time.

The settlement of AGS transactions occurs through Austraclear: a licensed clearing and settlement facility under the *Corporations Act 2001*. Austraclear is an electronic securities depository system for Australian dollar denominated money market securities. It applies a delivery versus payment settlement system, which involves simultaneous gross settlement of securities with real time gross settlement of cash. The transfer of securities only occurs when the transfer of cleared funds in payment for the securities is confirmed.

If the AOFM buys securities back from the market, it delivers cash to successful counterparties in return for the delivery of securities by those counterparties. The AOFM then cancels any AGS it buys back from the market.

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 2021-22 was successfully settled in a complete, timely and accurate manner. The AOFM conducted one wholesale buyback transaction during 2021-22 – the repurchase of $1.7 billion (in face value terms) of the February 2022 TIB line.
This transaction was timed to be coincident with the syndicated issuance of the new November 2032 maturity.

In 2021-22, the AOFM settled:

- 89 Treasury Bond tenders, totalling $81.7 billion
- 1 Treasury Bond syndication of $15 billion
- 16 TIB tenders, totalling $2.6 billion
- 1 TIB syndication of $3.6 billion
- 47 T-Note tenders, totalling $96 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 assessed at all times in financial markets as behaving in a manner fully consistent with its triple-A 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 2021-22.

In 2021-22, the AOFM made:

- 58 Treasury Bond coupon payments, totalling $20.2 billion
- 1 Treasury Bond redemption payment of $16.4 billion
- 30 TIB coupon payments, totalling $820 million
- 1 TIB redemption payment of $6.1 billion
- 15 T-Note redemption payments, totalling $98.3 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 2020-21 and 2021-22.

The Long-Term Debt Portfolio (LTDP)

> The effective yield on the LTDP was 2.18 per cent for 2021-22, 2 basis points lower than in 2020-21. Total debt servicing costs increased by $1.6 billion, which was largely attributable to higher costs on TIBs.

The average volume of bonds on issue increased by $80.4 billion, which contributed to higher debt servicing costs for the portfolio. The low interest rate environment for much of 2021-22 continued to offer lower financing costs on new debt raising, including for refinancing maturing debt.

On the other hand, a significant uplift in inflation during 2021-22 led to a rise in yields and in turn a substantial increase in debt servicing costs on TIBs.

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

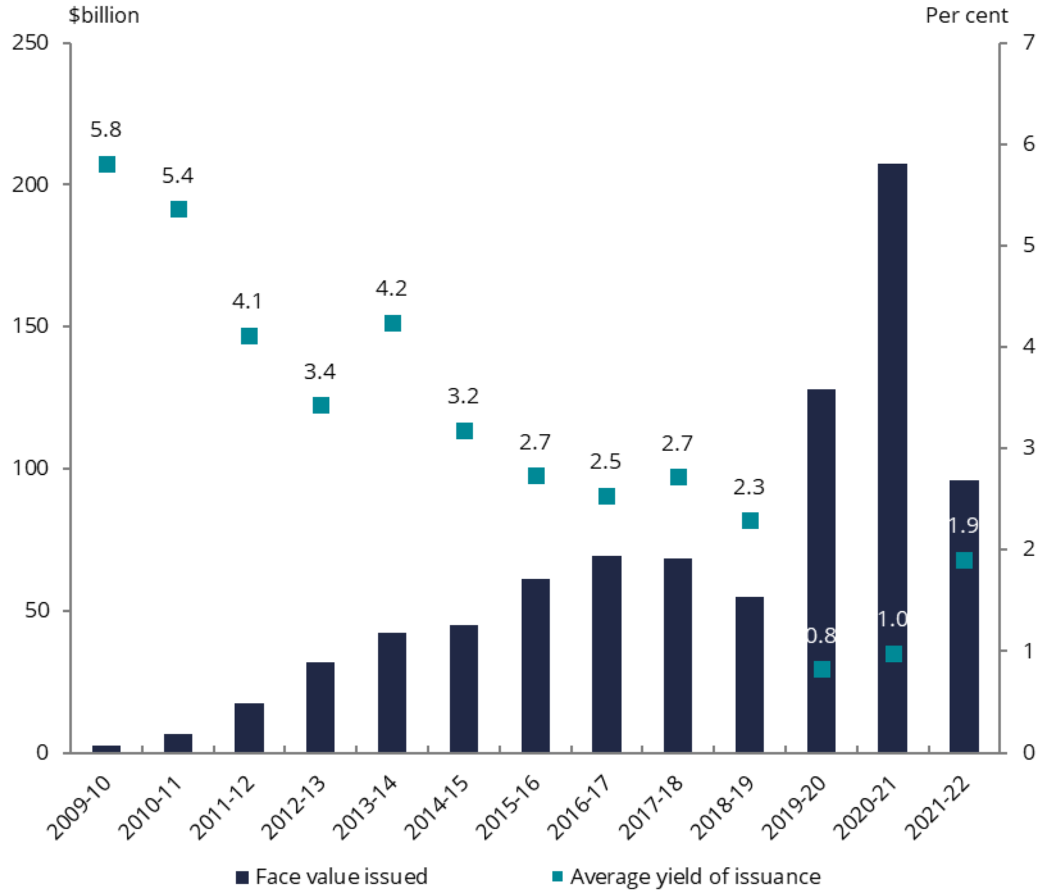
	Debt servicing cost		Book volume		Effective yield	
	2021-22	**2020-21**	**2021-22**	**2020-21**	**2021-22**	**2020-21**
	$ million		**$ million**		**per cent per annum**	
Contribution by instrument						
Treasury Bonds	(16,314)	(15,984)	(803,207)	(725,243)	2.03	2.20
Treasury Indexed Bonds	(2,200)	(977)	(47,557)	(45,130)	4.63	2.16
Total	**(18,514)**	**(16,961)**	**(850,764)**	**(770,373)**	**2.18**	**2.20**
Represented by						
Interest costs	(18,480)	(16,961)	(850,764)	(770,373)	2.18	2.20
Costs of repurchases	(34)	-	(850,764)	(770,373)	0.00	-
Total	**(18,514)**	**(16,961)**	**(850,764)**	**(770,373)**	**2.18**	**2.20**

Treasury Bonds

> Debt servicing cost of Treasury Bonds in yield terms was 17 basis points lower in 2021-22 compared with 2020-21. Debt servicing cost was $330 million higher in dollar terms due to the increase in the volume of bonds on issue.

The structure and effective yield of the Treasury Bond portfolio are a product of issuance undertaken in the current and previous years. Just over half the current portfolio was issued in the last 3 financial years at historically low yields, which reduced the average yield of the portfolio (Chart 5).

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

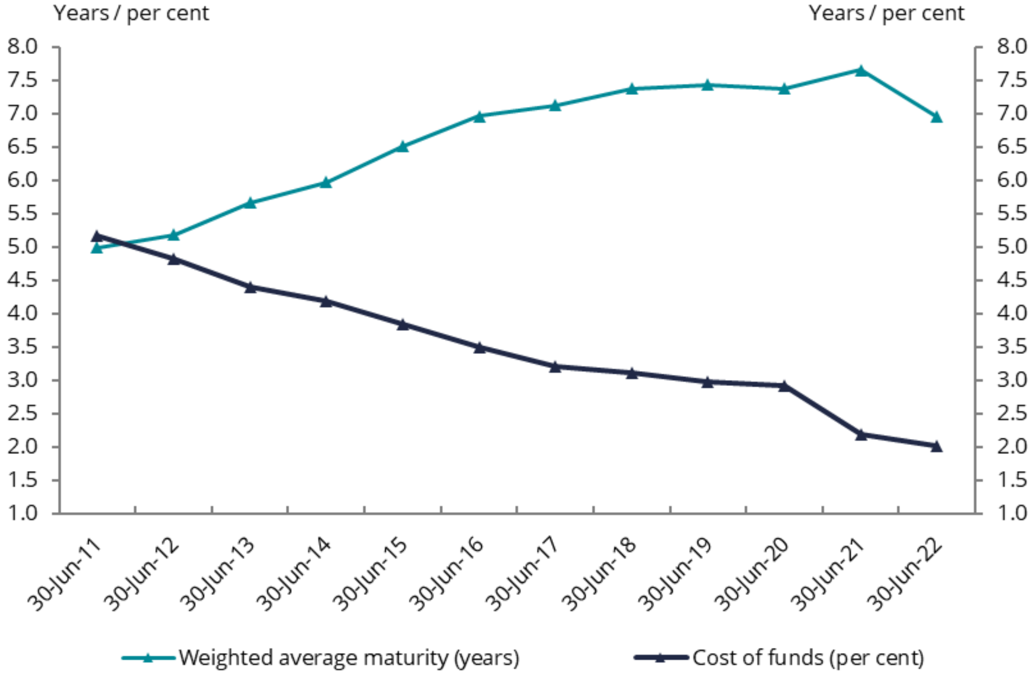


Purpose 1

> The average maturity of the Treasury Bond portfolio shortened during 2021-22.

The average maturity of the Treasury Bond portfolio shortened by 0.71 years, to 6.96 years, over 2021-22.[2]

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



> The proportion of the Treasury Bond portfolio maturing in 3 years and 5 years rose during 2021-22.

As the size of the debt portfolio has increased over the last 10 years, the AOFM has lengthened the longest maturity it can issue (to 30 years) and, on average, has issued more longer bonds each year. The aim of this is to, where possible, reduce the amount of the portfolio that needs to be refinanced over relatively short-term horizons (refinancing risk). Changes

---

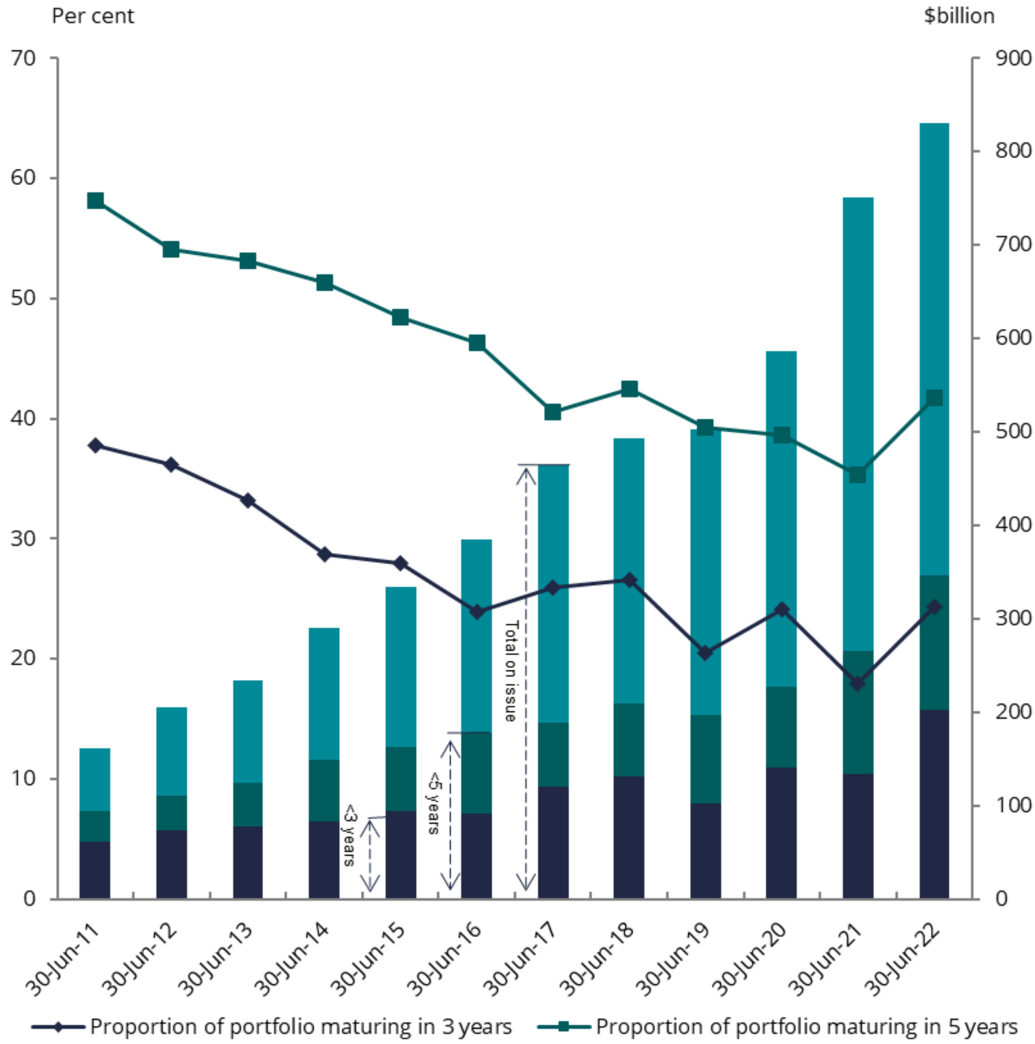
2 These are point-in-time measures at 30 June each year, in contrast to debt servicing cost incurred throughout the year captured in Chart 6. Figures are calculated by weighting Treasury Bond issuance yields by book volume.

Purpose 1

to portfolio funding, refinancing and interest rate risk are represented in Chart 7.

The volume of bonds maturing in the next 3-year and 5-year periods rose in 2021-22 as the total stock of bonds and the proportion of shorter-dated bonds in the portfolio increased. Notwithstanding the shortening of the average maturity of the Treasury Bond portfolio, only one-quarter of the portfolio will need to be refinanced in the next 3 years.

Chart 7: Treasury Bond portfolio – maturity profile



Purpose 1

> A longer-dated Treasury Bond issuance bias over the past decade has reduced refinancing risks.

More than half of all outstanding Treasury Bonds were issued with an original maturity of 9-12 years. Around three-quarters of the portfolio was issued with an original term to maturity of 9 years or longer (Chart 8).

The predominance of longer-term bonds reflects long-dated issuance biases over the past decade. This has contributed to investor diversity, and reduced refinancing risk and potential variability in interest cost outcomes. Longer-dated issuance has been undertaken at higher average yields, which reflects the trade-off between cost and risk.

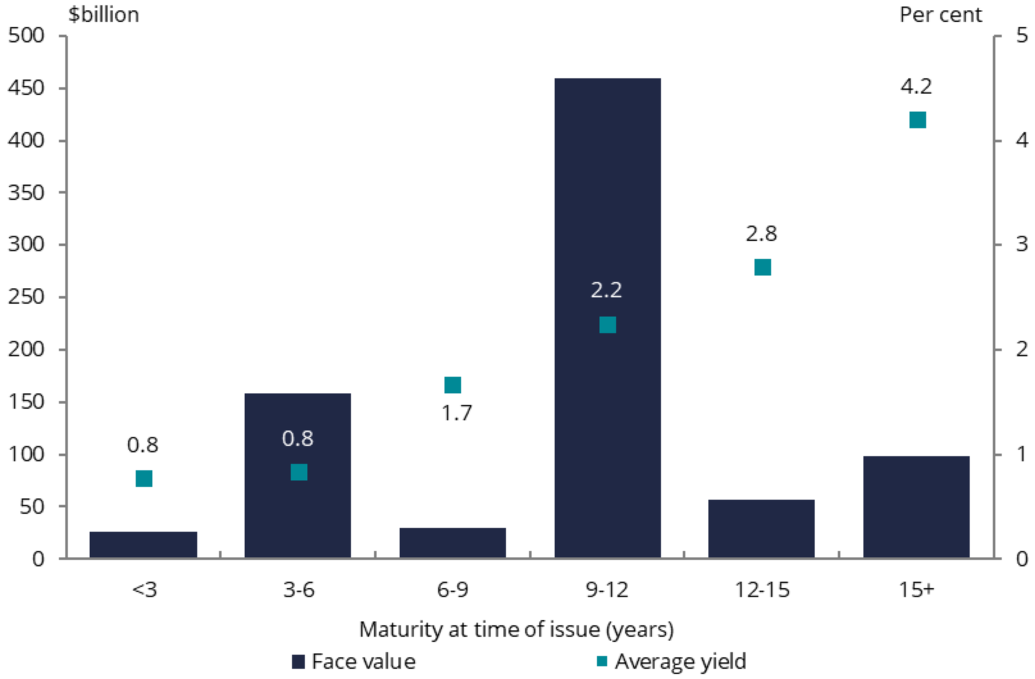
Constraints on issuing very long bonds

The AOFM issues bonds maturing out to 30 years, but only a subset of the investor base will buy bonds longer than 12 years because prices of these bonds have higher sensitivity to movements in interest rates (a risk that can be difficult to manage). The AOFM's ability to issue large volumes of very long bonds is therefore constrained. Although demand for long-dated Australian dollar bonds has grown as the AOFM has developed the market, issuance primarily relies on demand from offshore private sector investors, since domestic investors and offshore central banks tend to heavily weight their portfolios towards 0-12 year bonds. There is insufficient demand for Australian dollar denominated bonds longer than 30 years to support further extension of the Treasury Bond yield curve. It is likely that bonds around 10 years in tenor will remain the mainstay of the AOFM's issuance operations.

Weekly demand for bonds longer than 12 years is less consistent than for shorter bonds, while also being more susceptible to market volatility. The AOFM is particularly mindful of market conditions when scheduling very long bond issuance. Even though issuance is typically undertaken when demand is expected to be good, tenders of these bonds consistently attract lower volumes of demand ($1 billion on average compared to $4 billion for 0-12 year bonds during 2021-22). Excessive issuance of bonds with low levels of demand and high levels of interest rate risk would likely result in failed tenders, higher issuance yields, or both.

Most sovereign issuers face similar constraints to those faced by the AOFM.

Chart 8: Treasury Bond portfolio composition by original maturity as at 30 June 2022

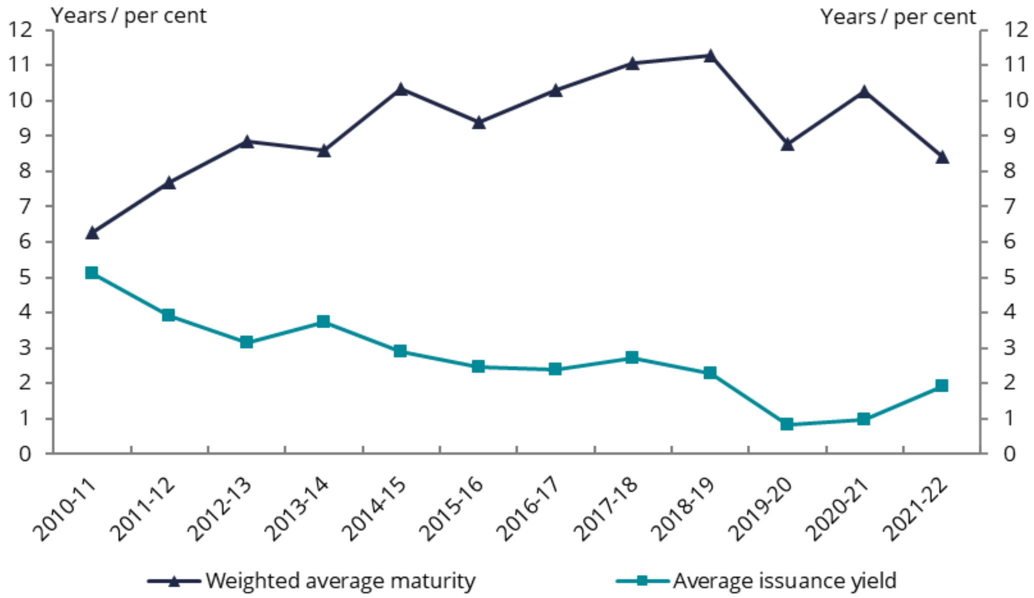


Bond yields rose significantly over the course of 2021-22 although yields out to around 3 years were anchored until just before the Reserve Bank of Australia (RBA) discontinued its yield target in November 2021.

> For 2021-22 Treasury Bond issuance averaged 8.6 years at an average yield of 1.91 per cent.

The WAM of Treasury Bond issuance in 2021-22 was shorter than 2020-21. Factors contributing to the shorter-dated issuance average included no launches of new ultra-long bonds during the year, issuance of shorter-dated bonds to support liquidity and a steeper yield curve.

Chart 9: Treasury Bond issuance – average yield and maturity



Treasury Indexed Bonds (TIBs)

> Interest costs on TIBs are driven by market yields at issuance and Consumer Prices Index (CPI) outcomes.

The effective yield on the TIB portfolio rose considerably compared with the year prior. This was driven by high inflation outcomes, which led to increased coupon and maturity payments.

Break-even inflation rates were largely contained within the RBA's 2-3 per cent inflation target band during the year, despite significantly higher realised inflation outcomes.

Purpose 1

What is break-even inflation?

The break-even inflation rate is the inflation rate required for a TIB to generate the same return to an investor as a nominal Treasury Bond with the same maturity, if the investor holds the bonds to maturity.

An estimate of the break-even inflation rate is reflected by the difference between the nominal yield of a Treasury Bond and the real yield of a TIB with a similar tenor.

Cash Management Portfolio (CMP)

The CMP made a net return of 0.44 per cent for 2021-22, 31 basis points higher than in 2020-21.

Table 7: CMP returns (debt servicing costs)

	Return (Debt servicing costs)		Book volume		Effective yield	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
	$ million		$ million		per cent per annum	
Contribution by instrument						
Deposits with the RBA	110	104	50,652	67,836	0.22	0.15
Treasury Notes	(22)	(81)	(30,485)	(49,920)	0.07	0.16
Total	**88**	**23**	**20,167**	**17,916**	**0.44**	**0.13**

Policy Portfolios

In total, the policy portfolios made a return of $118 million with an effective yield of 4.55 per cent. The return on the policy portfolios increased by 45 basis points compared with 2020-21.

Income on state housing advances was $83 million for the period. Income on the Structured Finance Support Fund (SFSF) was $32 million and income on the Australian Business Securitisation Fund (ABSF) was $3 million. Income for the SFSF and the ABSF comprises interest revenue and commitment fees but excludes allowances for expected credit losses.

Table 8: Policy portfolios returns

	Revenue		Book volume		Effective yield	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
	$ million		$ million		per cent per annum[3]	
Contribution by instrument						
ABSF investments[1]	3	1	99	47	3.00	1.63
SFSF investments[2]	32	59	1,073	2,063	3.04	2.87
State housing advances	83	88	1,420	1,498	5.85	5.86
Total	**118**	**148**	**2,592**	**3,608**	**4.55**	**4.10**

[1] ABSF investment income is before allowances for expected credit losses ($0.6 million expense in 2021-22 and nil in 2020-21).
[2] SFSF investment income is before allowances for expected credit losses ($4.4 million revenue in 2021-22 and $3 million expense in 2020-21).
[3] Effective yields were calculated using unrounded figures.

Performance for Key Activity 1.4

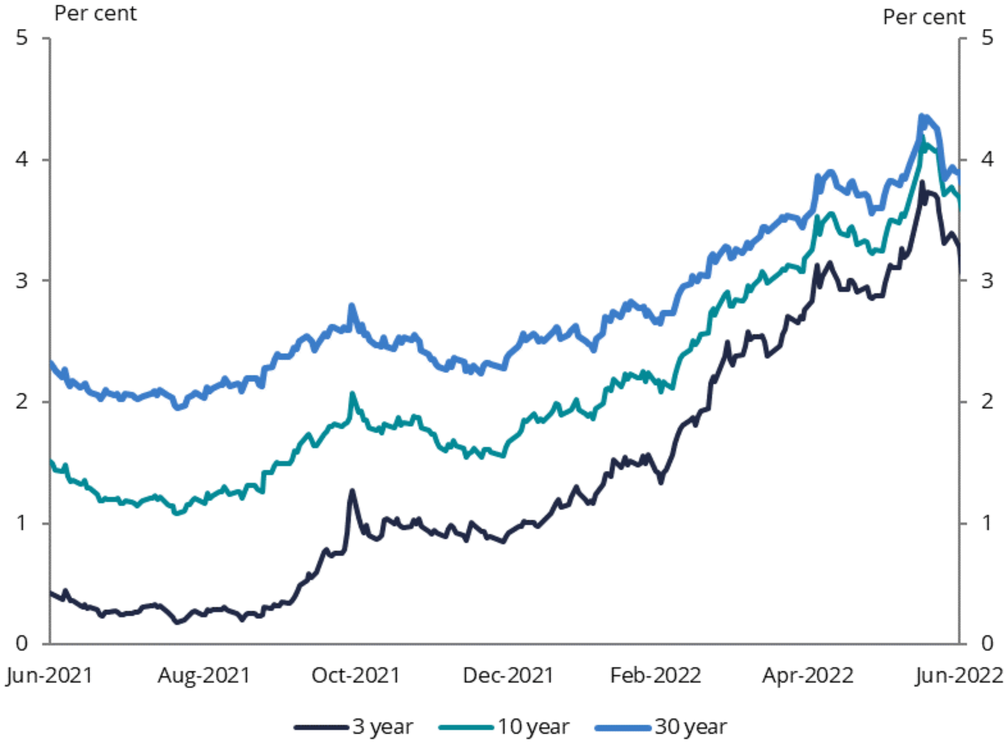
Indicator 1.4.1 Financing cost – issuance

The financing cost target for Treasury Bond issuance was met.

The average yield on Treasury Bond issuance (which accounts for the bulk of long-term issuance) for 2021-22 was 1.91 per cent. This is lower than the average 10-year bond rate of 2.11 per cent over the year. This outcome reflects the timing of bond issuance (concentrated in the first half of the year, when yields were lower) and the fact that issuance was shorter than 10 years on average. The WAM of issuance in 2021-22 was 8.6 years.

Bond yields rose sharply in Australia and across developed economies over the course of 2021-22 (Chart 10).

Chart 10: Evolution of Treasury Bond benchmark yields



Indicator 1.4.2 Financing cost – portfolio

> The target for financing cost for the LTDP was met.

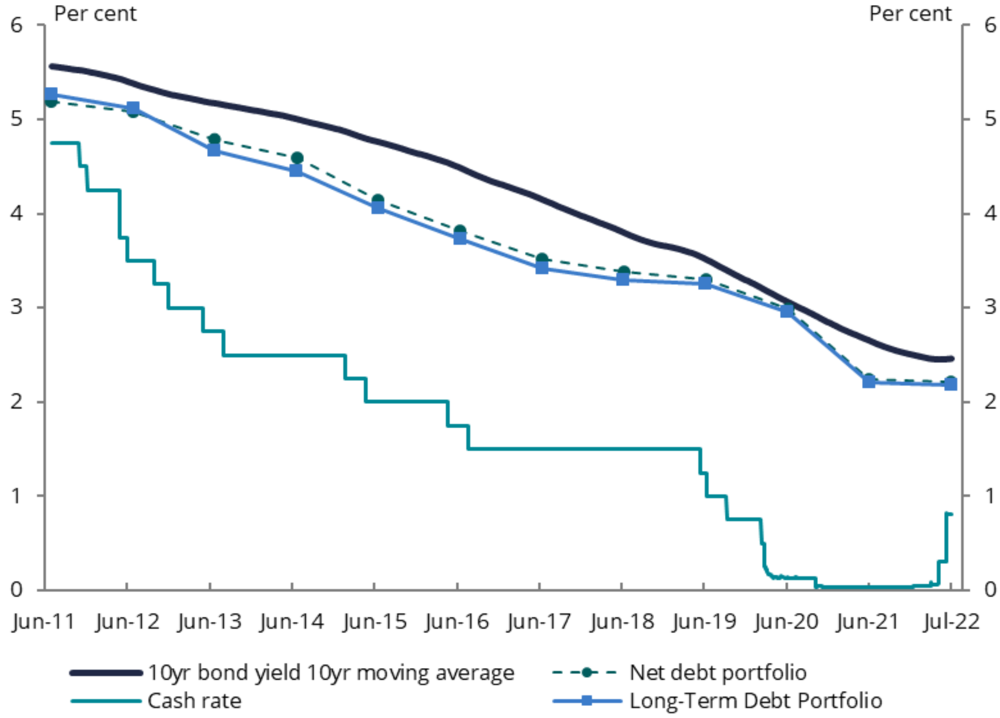
The debt servicing cost for the LTDP for 2021-22 was 2.18 per cent. The benchmark rate – the average 10-year Treasury Bond rate over the past 10 years – was 2.45 per cent.

The AOFM monitors issuance cost outcomes against the 10-year Treasury Bond rate because it is a market relevant benchmark and represents a highly liquid part of the AGS yield curve (making it a useful cost indicator). The 10-year average is used because the portfolio primarily comprises securities issued over the last decade. The trajectory and level of financing costs are important considerations for monitoring a potential source of future fiscal pressure.

Chart 11 shows the funding cost profile of the LTDP and the net debt portfolio (the combined LTDP and CMP) over the past decade. These profiles are compared with the cash rate and 10-year moving average of the 10-year bond yield.

Interest rates on the LTDP and the net debt portfolio have declined significantly over the decade. Given the largely fixed cost structure, changes in funding costs lag changes in the cash rate. Funding costs change only when debt securities or assets mature, new securities are issued or investments are made, and with quarterly updates to the Consumer Price Index (CPI) (for TIBs).

Chart 11: LTDP and net debt portfolio cost of funds analysis



Purpose 1

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 $18.3 billion in 2021-22 (2020-21: $16.8 billion) on an average book volume of $828.8 billion (2020-21: $748.8 billion). This represents a net cost of funds of 2.21 per cent (2020-21: 2.24 per cent). Table 9 provides details of the cost outcomes for the portfolio of debt and assets 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	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
	$ million		$ million		per cent per annum	
Contribution by instrument						
Treasury Bonds	(16,314)	(15,984)	(803,207)	(725,243)	2.03	2.20
Treasury Indexed Bonds	(2,200)	(977)	(47,557)	(45,130)	4.63	2.16
Treasury Notes	(22)	(81)	(30,485)	(49,920)	0.07	0.16
Gross AGS	**(18,536)**	**(17,042)**	**(881,249)**	**(820,293)**	**2.10**	**2.08**
Deposits with the RBA	110	104	50,652	67,836	0.22	0.15
ABSF investments[1]	3	1	99	47	3.00	1.63
SFSF investments[1]	32	59	1,073	2,063	3.04	2.87
State housing advances	83	88	1,420	1,498	5.85	5.86
Gross assets	**228**	**252**	**53,244**	**71,444**	**0.43**	**0.35**
Net portfolio	**(18,308)**	**(16,790)**	**(828,005)**	**(748,849)**	**2.21**	**2.24**
Contribution by portfolio						
Long Term Debt Portfolio	(18,514)	(16,961)	(850,764)	(770,373)	2.18	2.20
Cash Management Portfolio	88	23	20,167	17,916	0.44	0.13
Investments for Policy Purposes Portfolio[1]	118	148	2,592	3,608	4.55	4.10
Total debt and assets	**(18,308)**	**(16,790)**	**(828,005)**	**(748,849)**	**2.21**	**2.24**

[1] Investment returns are before allowances for expected credit losses.

Purpose 1

Debt servicing cost for AGS was $1.5 billion higher than in the previous year. The increase was driven by the higher average volume of debt on issue and higher funding rates primarily arising from the impact of higher realised inflation on TIBs.

Return on gross assets for the period totalled $228 million, a decrease of $24 million from the previous year. This was largely a result of lower asset balances. A large number of originators chose to exit the SFSF and seek alternative finance as a result of favourable market conditions in the first half of 2021-22. In addition, the AOFM held lower levels of cash balances in 2021-22 compared to 2020-21.

For further information, refer to Part 4 – Financial Statements

PERFORMANCE ASSESSMENT: PURPOSE 2

Ensure the government can always meet its cash outlay requirements

Purpose 2

How Purpose 2 is achieved

Cash management focuses on ensuring the government can always meet its financial obligations. Management of the cash portfolio involves the AOFM using information from the Australian Taxation Office and spending agencies to forecast daily revenue collections and outlays. There are periods of significant mismatches between outlays and revenue collected during the year. The AOFM uses short-term funding, in the form of Treasury Notes (T-Notes), and cash balances to manage these mismatches.

The AOFM takes a conservative approach to this task. It maintains a liquidity buffer to cover unforeseen circumstances, such as a large unanticipated change to forecasts or temporary loss of access to funding markets.

Table 10: Summary of performance for Purpose 2

Performance measures		2021-22 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

Performance measures denoted with * have been added since the publication of the AOFM's 2021-22 Corporate Plan in August 2021 and are effective from 1 July 2022. Although not required, the AOFM has elected to report against these for 2021-22.

Key Activity 2.1: Establish a liquidity management strategy

The liquidity management strategy describes a broad approach to liquidity management. It identifies measures that will assist the AOFM to achieve its objective of meeting the government's cash requirements in full and on time.

Performance for Key Activity 2.1

Indicator 2.1.1 Annual liquidity management strategy

> The target for approval of the liquidity management strategy was met.

The Secretary to the Treasury approved the liquidity management strategy for 2021-22 in May 2021, following a briefing session with AOFM staff.

Key Activity 2.2: Conduct the cash management task

Cash Management Portfolio (CMP)

> Effective cash management ensures the government can meet its expenditure obligations at all times and 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.

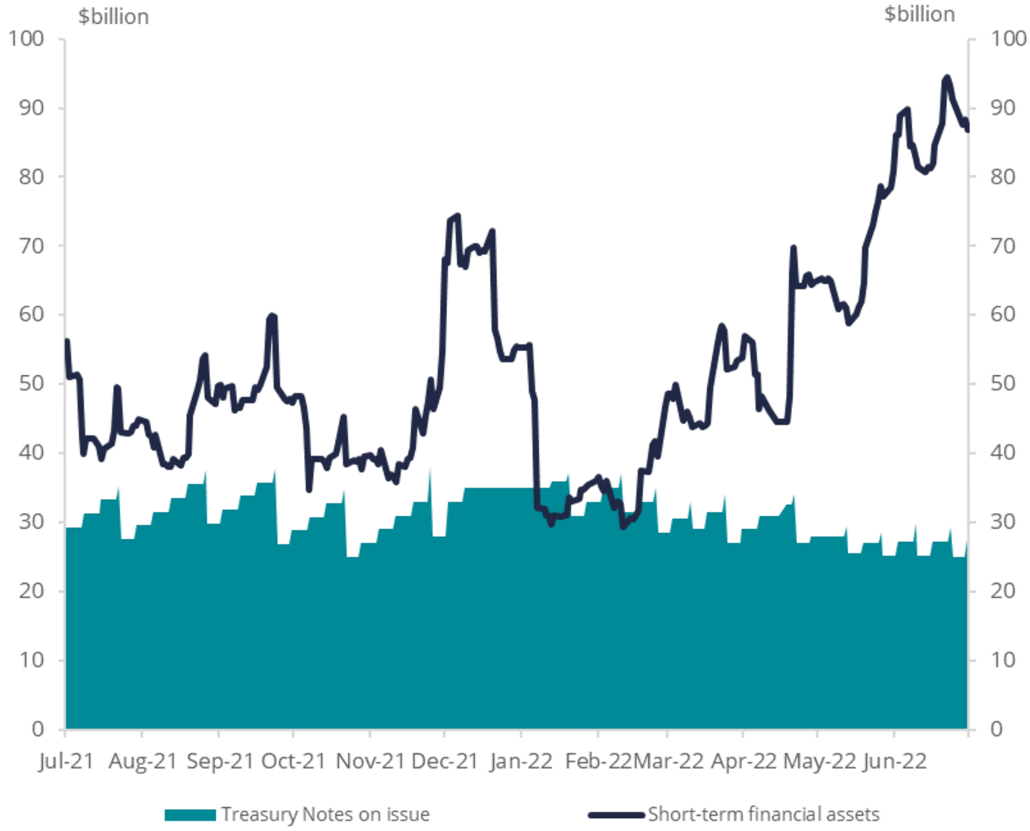
A liquidity buffer is maintained to manage the forecasting risk associated with large, unexpected cash requirements (or shortfalls in revenue collections) and the funding risk associated with sudden and severe market constraints on issuance.

All cash management investments are held in the Cash Management Account (CMA) at the Reserve Bank of Australia (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 $28.5 billion to a peak of $93.6 billion in 2021-22.

The volume of T-Notes on issue during 2021-22 ranged from $25 billion to $38 billion. The AOFM has instituted a minimum volume of T-Notes to be outstanding, currently set at $25 billion, to maintain market functioning.

The movement in total short-term financial assets managed by the AOFM (cash balances in the Official Public Account (OPA) and the CMA) together with the volume of T-Notes on issue during 2021–22 is shown in Chart 12.

Chart 12: Cash holdings and Treasury Notes



Purpose 2

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.

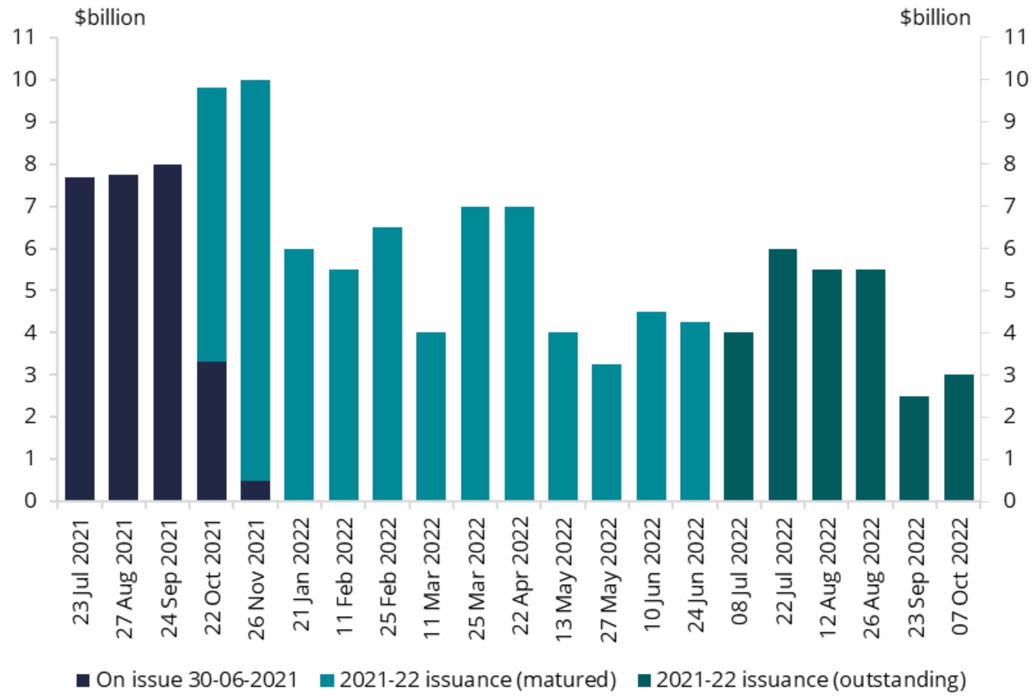
The net return earned by the CMP was $88 million in 2021-22, an increase of $65 million compared with 2020-21. This is attributable to higher yields on cash deposits and lower yields on T-Notes combined with a higher average net asset position for the portfolio.

Treasury Notes (T-Notes)

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

T-Notes on issue increased by $250 million over the course of 2021-22. Issuance focused on tenors of less than 6 months. T-Notes totalling $98.5 billion (in face value terms, dealt basis) were issued in 2021-22, an increase of $4 billion from 2020-21. Chart 13 shows T-Note maturities and issuance over the year.

Chart 13: Treasury Note issuance and maturities in 2021-22



Purpose 2

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 2021-22.

PERFORMANCE ASSESSMENT: PURPOSE 3

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

Purpose 3

How Purpose 3 is achieved

Consistent and regular market engagement assists the AOFM in achieving its core goals. To meet these goals, the AOFM maintains a comprehensive understanding of market related issues. Aspects to 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 Australian Government Securities (AGS) market.

Table 11: Summary of performance for Purpose 3

Performance measures		2021-22 Performance	
		Target	**Results**
Key Activity 3.1	**Communicate AOFM operations clearly and consistently to the market:** • through periodic updates of planned annual gross issuance • by maintaining weekly announcements of impending issuance • through timely disclosure of issues of strategic importance to markets.		
3.1.1	**Market commitments:** the number of times the AOFM failed to conduct issuance operations consistent with prior market announcements.	Zero	Met
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.		

Performance measures		2021-22 Performance	
		Target	Results
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

Performance measures denoted with * have been added since the publication of the AOFM's 2021-22 Corporate Plan in August 2021 and are effective from 1 July 2022. Although not required, the AOFM has elected to report against these for 2021-22.

Key Activity 3.1: Communicate AOFM 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 the AOFM does not have any regulatory or statutory authority. Any influence it has is by virtue of its communications about issuance, portfolio intentions and specific operations. Nonetheless, the AOFM recognises there is a 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 met.

The AOFM's actions remained consistent with its public market announcements and updates throughout the year.

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 the AOFM makes many of its operational and portfolio judgements. Information on a range of matters pertinent to the AOFM's investor base is published on the AOFM website.

During 2021-22, 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 after the release of the 2021-22 Budget, with updates following the publication of the Mid-Year Economic and Fiscal Outlook (MYEFO) and with the release of the 2022-23 Budget in March 2022. Additional detail on the issuance program, including plans for new bond lines, was published in half-yearly updates in July 2021 and January 2022.

Key Activity 3.2: Conduct a market engagement program

> The AOFM conducts market engagement with intermediaries and investors.

Investor and intermediary engagements are based on direct interactions and indirect communication, including with investors through feedback from banks, and with market participants generally via the AOFM website.

Regular engagement greatly assists in understanding how investors are viewing the market, how demand for AGS might be changing and how intermediaries interact with investors. The AOFM can also use these engagements as a way of gathering information about market dynamics and conditions.

Why are intermediaries important?

Government bonds are mostly traded 'over the counter' rather than on an exchange. Trading banks acting as intermediaries provide liquidity. This involves buying bonds from issuers in the primary market, and 'making markets' by buying from and selling to investors in the secondary market.

Banks make a return from providing liquidity by the difference between the prices at which they buy and sell bonds. To the AOFM, intermediaries represent primary access to market because the AOFM does not have direct trading relationships with end investors.

The AOFM's market 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 the AOFM typically commences 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 planned AOFM operations
- Focusing on engagement with new or potential investors.

Investor engagement for 2021-22 began with the AOFM undertaking a series of virtual meetings due to ongoing travel restrictions. The first round, in July-August 2021, comprised calls or video conferences with around 52 major offshore investors.

The AOFM had not travelled to meet investors, either domestically or offshore, since the onset of the pandemic and instead relied on virtual meetings, conferences, and webinars. However by March 2022, the AOFM was able to conduct some in-person meetings in Sydney and Melbourne. In May 2022, the AOFM resumed overseas meetings by travelling to the UK, France and the Netherlands (in conjunction with Organisation for Economic Cooperation and Development (OECD) meetings).

Presentations and speeches this year were conducted virtually, with the exception of the ABE speech in June 2022 that was held in Sydney. The annual ABE speech remains the key market presentation that the AOFM uses to outline a broad strategy for operations in the year ahead and to highlight its thinking on issues relevant to the functioning of the AGS market and how this could relate to AOFM operational decisions.

The AOFM produces a publication called *Investor Insights*. Its aim is to provide investors and other market participants with an understanding of how the AOFM thinks about parts of its operations, and observations of interest regarding the AGS market and the activities of investors generally. The AOFM's website is an important tool for investor engagement. In 2021-22, it continued to be used to publish *Investor Insights*, investor chart packs and the ABE speech.

Environmental, social and governance issues continue to grow in significance for investors. Throughout the year, investors asked the AOFM about the possibility of a green labelled bond. Investors also asked questions about the Government's policies toward climate change that focused mostly on carbon emissions abatement. It is clear from these discussions that financial markets will continue extending analysis and consideration of climate-change related policies – though to widely varying degrees.

Why are AGS valued by investors?

AGS play a key role in the financial system because they are considered to be credit risk free. They can be readily bought and sold on the secondary market without meaningfully affecting their price, an indicator of market liquidity. The Australian dollar also has relatively good liquidity in the currency market.

Due to these characteristics, a wide range of domestic and international investors acquire AGS to support a variety of investment needs. AGS can offer a 'safe harbour' in times of economic uncertainty and financial market stress; can be used as collateral for certain financial market transactions; represent a liquid asset for regulated financial institutions; and offer a channel by which the RBA gives effect to monetary policy.

The following table summarises the extent of investor engagement activities for the year.

Table 12: Summary of investor relations activities in 2021-22

Activity	Details
Offshore investor campaigns	81 meetings (52 virtual, 29 in person)
Domestic investor campaigns	21 meetings (10 virtual, 11 in person)
Ad hoc meetings	16 meetings (8 virtual, 8 in person)
Presentations: large engagements	5 presentations (ABE speech, bank virtual investor conferences, virtual tour)
Roundtable discussions	2 KangaNews roundtables on markets issues including AOFM issuance, AGS developments and investor trends
AOFM staff participating in investor relation activities	CEO, Head of Investor Relations, Head of Funding and Liquidity, Head of Portfolio Strategy and Research, Senior 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 2 investor chart packs and 2 *Investor Insights* during 2021-22. These publications were made available on the AOFM website.

Key Activity 3.3: Support financial market liquidity

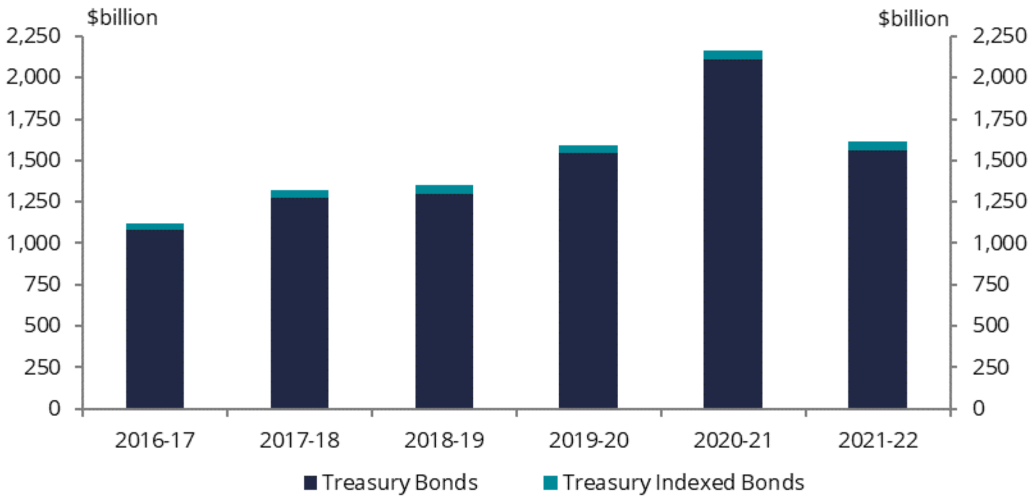
> Efficient functioning markets require market liquidity.

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.

One important measure of market liquidity is secondary market turnover. The AOFM collects turnover data for Treasury Bonds and Treasury Indexed Bonds (TIBs) from financial intermediaries on a monthly basis.

Chart 14: Annual turnovers for Treasury Bonds and Treasury Indexed Bonds



Turnover rose each year from 2016-17 to 2020-21, when annual turnover reached $2.11 trillion for Treasury Bonds and $58 billion for TIBs. A key driver of the historically high volume of Treasury Bond turnover in 2020-21 was the record amount of issuance by the AOFM in that year.

Secondary market turnover fell to $1.57 trillion for Treasury Bonds and $49 billion for TIBs in 2021-22. The fall in Treasury Bond turnover was influenced by a significant reduction in primary issuance.

Treasury Bonds with tenors between 2-5 years and 9-12 years exhibit the highest volumes of turnover – these bonds underly the liquid 3-year and 10-year Treasury Bond futures contracts.

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 will affect different types of investors in different ways, so having a variety of investor types reduces the likelihood that all investors will respond in a similar manner to a specific event.

As well as focusing on investor diversity, the AOFM also supports secondary market liquidity in the manner that it issues bonds.

First, it directs much of its issuance of Treasury Bonds into lines that make up the 3-year and 10-year futures baskets. Three to five bonds are selected by the ASX to underpin the pricing of specific futures maturities; these are known as 'basket bonds'. Issuance and trading support the liquidity of the underlying basket of bonds for the futures contracts, which in turn complements the liquidity of the physical bonds as the futures contract is a liquid risk hedging tool.

Second, the AOFM supports market liquidity through regular and consistent issuance into new and existing bond lines, to build them to large liquid size. The AOFM is always monitoring market demand to determine where its issuance efforts are best placed to support market functioning, including the establishment of new bond lines.

The AOFM is also now taking into account RBA holdings of AGS bond lines and the potential for reductions in the 'free float' to affect market functioning. This means AOFM issuance over the coming years may have to have a relatively greater focus on the 3-year futures basket to support secondary market liquidity than has been historically the case.

Issuing bonds across the yield curve

The AOFM regularly issues into bond lines across the entire Treasury Bond yield curve (with the exception of very short-dated bond lines). Twenty-two of the 25 bond lines longer than 2 years in tenor were issued during 2021-22. Issuing into bond lines with a wide range of maturities benefits investors, bond market functioning, and the AOFM portfolio.

Issuing into a wide range of maturities:

- assists market liquidity
- supports diversity in the investor base
- stimulates active trading in bond lines
- ensures all bond lines are of sufficient size to facilitate market liquidity.

Bond market liquidity is important for investors and ultimately reduces the AOFM's borrowing costs.

Large-scale RBA bond purchases, as part of extraordinary pandemic monetary policy settings, significantly reduced the amount of some bond lines available for market trading. AOFM issuance to assist liquidity in these bond lines can be expected to continue over the coming years.

Spreading the volumes of bonds that need to be refinanced across many years keeps future borrowing programs relatively steady. This reduces risk by avoiding large refinancing peaks and the proportion of the portfolio that is issued at the level of yields that prevail at any one time.

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 two-way prices, reducing settlement risk and supporting market liquidity.

The facility was used 232 times for overnight borrowing in 2021-22 (of which 18 transactions remained open at 30 June 2022) compared with 123 times during 2020-21. Volumes borrowed were lower than in 2020-21, with the total face value lent in 2021-22 of $4.3 billion, a decrease of $1.7 billion. The June 2051 Treasury Bond and August 2040 TIB 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

Indicator 3.3.1 Secondary market turnover

> The target for secondary market turnover was not met.

The target for secondary market turnover was not met for Treasury Bonds or TIBs.

Secondary market turnover for Treasury Bonds in 2021-22 remained high: over $1.57 trillion of bonds were traded during the year (see Chart 14). However, this represented a decrease from $2.11 trillion in 2020-21, which was spurred by the record amount of issuance in that year.

TIB turnover fell from $58 billion in 2020-21 to $49 billion in 2021-22.

PERFORMANCE ASSESSMENT: PURPOSE 4

Meet the priorities of the ABSF and SFSF

Purpose 4

How Purpose 4 is achieved

Australian Business Securitisation Fund (ABSF)

Following the announcement of the ABSF program in late 2018, the AOFM and Treasury undertook extensive market engagement to gain insights into lending to small and medium-sized enterprises (SMEs). This included detailed assessment of barriers to investment activity that might explain the under-representation of SME loans within collateral pools supporting Australian securitisation products.

One potential barrier identified was the lack of standardisation in arrangements supporting securitisation of SME loans. Examples included the absence of standard documentation for revolving warehouse finance facilities and of a standardised SME loan performance reporting template. Other contributing factors were the lack of homogeneity in lending products offered to SMEs and lack of scale within specialist lenders, which constrained their ability to price loans at close to the marginal risk-adjusted cost of delivery.

A key part of the AOFM's strategy for using the ABSF to develop securitisation market capacity to support the SME lending market has been to assist with establishing a track record for new types of SME lending, including unsecured lending.

To this end, a key milestone was reached early in 2021-22 with the publication of an SME loan data template by the Australian Securitisation Forum (ASF). 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.

The AOFM contributed to the design of the template and is seeking to sponsor its widespread adoption through the ABSF. ABSF proponents have been asked to commit to implementing the template in a timely manner as a condition of ABSF investment. In return, the AOFM is prepared to temporarily accept a below market rate of return to subsidise implementation costs.

During 2021-22, the AOFM approved 3 additional ABSF investments, taking the total to 4 investments. The total commitments associated with these investments stood at $432.5 million at 30 June 2022.

Structured Finance Support Fund (SFSF)

The *Structured Finance Support (Coronavirus Economic Response Package) Act 2020* (SFS Act) established the SFSF to ensure continued access to funding markets affected by the economic effects of the COVID-19 pandemic, and to mitigate impacts resulting from those economic effects on competition in consumer and business lending markets.

The SFSF has enabled eligible smaller lenders to access finance via investments in structured finance products, such as residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), asset backed securities (ABS) and securities issued by revolving warehouse finance facilities.

The legislation, rules and directions set out the eligibility requirements and provide guidance to the Chief Executive Officer (CEO) of the AOFM (as the delegate) on investment prioritisation.

The AOFM identified 3 distinct priorities for the SFSF:

- Maintaining access to primary (term) securitisation markets for non-bank lenders across collateral types (RMBS, CMBS and ABS)
- Maintaining eligible smaller lender access to finance via support for revolving warehouse facilities
- Supporting the establishment of a mechanism to assist eligible smaller lenders to provide forbearance to their client base.

While $15 billion was allocated to the SFSF, its investment commitments peaked at $3.8 billion. These investments supported 40 non-bank and one bank lender to maintain access to finance.

The majority of the SFSF's investment commitments were made in (private) revolving warehouses, with 44 warehouse approvals and total approved limits of $2.3 billion supporting 34 eligible lenders. Term (public) securitisation investments of $1.4 billion were made in 2020 and directly supported 11 primary market transactions from nine lenders. Contingent support was offered but not ultimately required for an additional 20 transactions. Finally, $100 million was allocated to the forbearance special purpose vehicle (fSPV) to support eight approved sponsors.

In 2021-22, favourable market conditions, in particular during the first half of the year, allowed many beneficiaries to replace SFSF investments with private sector investors in their warehouse facilities. By the end of the year, SFSF warehouse investments had been reduced to 5 commitments totalling $235 million, supporting 5 lenders. The actual amount invested in warehouses fell to $109 million from $773 million through the course of the year.

SFSF term securitisation investments decreased to $560 million from $946 million through natural amortisation and as a result of call options being exercised by trustees. The SFSF has not sold any term investments.

Finally, the outstanding balance of SFSF fSPV investments fell to $26 million from $39 million through the course of the year. The remaining investments were owed by 5 remaining participating originators.

Table 13: Summary of performance for Purpose 4

Performance measures		2021-22 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

Purpose 4

Performance measures		2021-22 Performance	
		Target	Results
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

Performance measures denoted with * have been added since the publication of the AOFM's 2021-22 Corporate Plan in August 2021 and are effective from 1 July 2022. Although not required, the AOFM has elected to report against these for 2021-22.

Key Activity 4.1: Manage the ABSF program

> The AOFM worked with the securitisation industry to develop a data template and is now using the ABSF to incentivise its adoption by SME lenders. As the ABSF makes investments that are conditional upon its adoption, so will the usage of the template increase.

Central to the AOFM strategy for developing the SME lending sector of the securitisation market is coalescence around the standardised data template. This aims for investment performance between SME lenders to be readily assessed on a consistent basis over time by rating agencies and investors.

In 2019, the AOFM sought and received assistance from the ASF to sponsor a working group of industry participants, including AOFM staff, to design the template. This work was paused for much of 2020 due to the onset of the COVID-19 pandemic. The publication of the template by the ASF in 2021-22 represents a key milestone for the ABSF program.

The AOFM is now well placed to use ABSF investment to support the adoption of the reporting standard by SME lenders, through making it a condition of investment and by accepting a reduced return on investment for a temporary period to subsidise implementation costs.

In 2021-22, the AOFM approved an additional 3 ABSF warehouse investments, taking the total to 4 investments since the fund's inception. Three lenders supported by the ABSF have adopted the template in their reporting, and reported to the template for 30 June 2022.

Performance for Key Activity 4.1

Indicator 4.1.1 ABSF rate of return

> The target for ABSF rate of return was met for 2021-22.

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 3.00 per cent for the financial year ending 30 June 2022, compared to a benchmark return of -0.34 per cent.

A return-based performance benchmark helps guide the AOFM on the appropriate balance between the level of subsidy required to incentivise market development goals, such as the adoption of the data template, and the need to generate a positive return on public funds.

A key driver of ABSF financial out-performance in 2021-22 was rising yields on the short-dated fixed-rate debt instruments underpinning the benchmark against which ABSF returns are compared. These rose sharply in early 2022 as a direct consequence of the Reserve Bank of Australia's monetary policy response to rising inflation (and market pricing for further anticipated adjustments), which caused the benchmark to suffer revaluation losses. By contrast, ABSF investments pay fixed margins over variable interest rates that rose through the year.

Two other factors contributed to the ABSF exceeding its return benchmark. One is that the AOFM sought to avoid distorting the competitive landscape in the market for SME lending. The other is that the AOFM has avoided crowding out private sector investment from this segment of the market when negotiating margins on its investments.

Were it to apply excessive subsidy by accepting significantly lower returns, it is likely the AOFM would disincentivise private sector warehouse investment in the SME lending segment and create headwinds for SME lenders that are yet to benefit from ABSF investment.

Key Activity 4.2: Manage the SFSF program

> The strong credit market conditions that prevailed through most of 2021-22 reduced the need for ongoing support and incentivised the beneficiaries of SFSF support provided since 2020 to replace SFSF funding with private sector investment.

The strong market conditions that prevailed in the first half of 2021-22 led to a compression in credit margins in warehouse facilities similar to those committed to by the SFSF. The fixed margins received by the SFSF that were set in a period of crisis thus became increasingly attractive to other investors and relatively uncompetitive from the perspective of the lenders being supported.

In this situation, lenders that benefited from SFSF support were incentivised to replace the SFSF with private sector investment that could be priced at lower prevailing market rates.

Market conditions deteriorated toward the end of the financial year as credit markets experienced some of the volatility affecting other asset classes. This reduced the propensity of third-party investors to replace the SFSF. Of the 22 warehouses exited in 2021-22, just one occurred in the June quarter.

Performance for Key Activity 4.2

Indicator 4.2.1 SFSF losses

The target for SFSF gross credit losses was met for 2021-22.

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 orderly withdrawal of the SFSF from warehouse facilities has also contributed to meeting this target by reducing the exposure of the fund, particularly to unrated investments.

As at 30 June 2022, the overwhelming majority of SFSF remaining exposure, $560 million of the $695 million invested, was held in rated term securitisation investments, more than 90 per cent of which are in securities rated AA or higher. The riskiest part of the portfolio, exposure to the fSPV, is quite limited in size, with a current exposure of $26 million, less than 4 per cent 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 *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and is legally and financially part of the Commonwealth.

The AOFM's Chief Executive Officer (CEO) is responsible for directing the AOFM's operations. The CEO is accountable to the Treasurer and the Secretary to 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".[3]

As such, the Secretary to 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. AOFM 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 as follows:

- Corporate planning and performance monitoring
- Oversight by an audit committee with independent members, including the chair
- Internal committees to support decision making on a range of significant or whole-of-agency matters

---

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

- A risk management framework including enterprise risk, business continuity, and assurance and compliance activities
- Approval of financial risk policies, and debt management and liquidity strategies by the Secretary to the Treasury
- Legislative instruments governing the AOFM's activities.

Governing legislation

The AOFM's 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. • AOFM staff are employees of the Department of the Treasury under the Act, and the Secretary to the Treasury has delegated his powers under the Act to the AOFM CEO in relation to 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.

Legislation	Purpose
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 2021-22, the following committees provided advice and support for decision making.

Table 15: List of AOFM committees

Committee Name	Purpose and membership
Audit 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.

Committee Name	Purpose and membership
Executive 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 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 Global Markets and Business Strategy, with other staff holding relevant functional responsibilities invited as contributors and observers.
Security Committee (M)	Provided oversight of security management within the AOFM. Membership comprised the CEO (Chair), Chief Risk and Assurance Officer (CRAO), Agency Security Advisor and IT Security Advisor. The head of the Treasury Security Team is also invited to attend *ex officio* to assist with security harmonisation.
IT Steering Committee (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 Business and Data Systems (BDS) (Chair), CEO, Chief Operating and Finance Officer (COO/CFO), Project Manager BDS, Manager BDS, Analyst BDS and Senior Analyst Investor Relations.

Committee Name	Purpose and membership
Information Governance Committee (M)	Provided a mechanism to enhance and monitor the AOFM's record-keeping and information management practices. Membership comprises the CEO, COO/CFO, CRAO and Head of BDS.
Learning and Development Committee (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 Group members (on a staggered 12 month rotation) and the Senior Advisor - People.

(I) Independent committee
(M) Management committee

Audit committee

The AOFM Audit 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 committee are outlined in the Audit Committee Charter.[4]

Key activities of the committee during 2021-22 included:

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

4 The Audit Committee Charter can be accessed at https://www.aofm.gov.au/about/compliance-reports/audit-and-risk-committee-charter

- Monitoring implementation of audit recommendations
- Reviewing reporting on performance obligations in line with the PGPA Act requirements, including the approach to monitoring key performance indicators and their incorporation into the annual performance statement.

The audit committee met 4 times during 2021-22 and conducted in-camera sessions with internal and external auditors during the year. Table 16 provides information about membership of the audit committee.

Table 16: Audit Committee for 2021-22

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	$22,288
Jan Harris, Independent Member	BEc (Hons). An extensive career in the Australian Public Service over 30 years, including as Deputy Secretary to the Treasury. Experienced non-executive director. Broad experience in policy development, governance and risk management.	4/4	$17,023
Don Cross, Independent Member	BA, MBA, FCA, CPA. Chair or member of several audit committees and sub-committees and was a senior partner at KPMG and a lead partner for KPMG's key strategic government accounts. Experience in government program delivery and reform, financial statement audit and internal audit for policy, regulatory and service delivery agencies. Professional memberships in accounting, fraud control, business and auditing.	4/4	$17,023

(a) Remuneration includes superannuation and is GST exclusive

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

External observers at audit 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 COO/CFO regularly attended meetings as observers.

Risk management

Risk management is integral to the AOFM's activities and is the responsibility of all staff. The Executive Group 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 enterprise risk management (ERM) framework provided active and transparent management of uncertainty (threats and opportunities). Key reflection points were provided quarterly at Executive Group 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 'three lines of defence' model.

The first line of defence is a responsibility for all staff to manage risk, to comply with regulations, standards, and organisational policies, and to employ AOFM's risk management practices.

The second line of defence is oversight of the activities of the first line, and the development and implementation of enterprise-wide risk management processes and policies. The AOFM Executive Group 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 AOFM Executive Group and Audit Committee.

The third line of defence is an independent assessment of the effectiveness of internal controls and the ERM framework. This happened through assurance activities provided by an independent, outsourced internal audit function.

AOFM enterprise risks are classified into 3 categories:

- **Strategic**. Opportunities and exposures that affect the AOFM's medium-to-long term objectives. Risks were monitored and reviewed by the Executive Group on a semi-annual basis, with a comprehensive review of the context in which the AOFM operates undertaken as part of the annual corporate planning process.
- **Portfolio**. Impacts on portfolio management, investment, and debt issuance activities. These risks are managed pursuant to an AOFM-specific financial risk management policy. They were reviewed quarterly.
- **Operational**. These relate to business processes and corporate activities. They deal with matters of compliance, and the availability, integrity and actions of staff, service providers, systems, and internal processes. These risks were reviewed quarterly.

The principal risks and uncertainties identified for 2021-22 are outlined in Table 17, together with the actions undertaken during the year to manage them.

Table 17: Key risks identified for 2021-22

Risks	Management actions
The potential impact of market trends or disruptive technologies on the Australian Government Securities (AGS) issuance program	• Maintained a robust financial risk management policy to build and guide operational resilience. • Conducted regular market monitoring and assessments to support portfolio management. • Maintained ongoing dialogue with market participants and Treasury regarding market conditions, demand for AGS and industry reforms.
Maintaining investor confidence in the AGS market	• Followed an investor relations strategy to meet investor engagement needs. • Conducted regular industry engagement in support of the AGS and securitisation markets. • Maintained consistency in announcements and actions to support integrity and transparency in communications with the AGS and securitisation markets.
Potential disruptions to third party suppliers and impact on AOFM's delivery of core operational responsibilities	• Maintained effective contract and relationship management practices with key suppliers. • Monitored service levels and issues arising from key contracts, and worked with suppliers to enhance performance outcomes.

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 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.

The AOFM 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 AOFM risk management arrangements, especially given they are of a point-in-time critical nature. Business continuity arrangements include multiple levels of redundancy. This anticipates situations in which day-to-day business systems or office premises are not accessible, or when AOFM 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), AOFM support for budget preparation and changes to documentation or transactions relating to investment funds (the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF)).

The business continuity plan was updated during the year and testing was carried out with key third party service providers. These arrangements are supplemented by a crisis management framework to enhance business resiliency.

Assurance

The AOFM enterprise risk management 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.

The AOFM's compliance with external obligations and internal controls, and its policies and business procedures were monitored through a co-sourced arrangement. This involved in-house assurance and compliance activities supplemented by independent internal audit services. In 2021-22, 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 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 AOFM business and risk contexts. The audit committee endorsed the 2021-22 internal audit strategy for CEO approval.

The internal auditor completed 4 reviews in 2021-22.

- The design of the public debt interest model
- The framework established to support the management of the memorandum of understanding between AOFM and Treasury for the provision of corporate support services
- Performance of AOFM management of risks identified for key suppliers
- Performance and compliance of AOFM procurement activity to support implementation of the SFSF in 2020

Two reviews remain outstanding from the 2021-22 internal audit work plan and were in progress on 30 June 2022

- AOFM information governance arrangements
- Assessing the gap between core requirements of the protective security policy framework and AOFM processes to meet the core requirements

The internal auditor also completed a management-initiated review to assess the design of the AOFM portfolio modelling framework.

In its annual report on internal controls, the internal auditor concluded that "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. At 30 June 2022, 7 internal audit recommendations remained outstanding and are being addressed in accordance with agreed timelines.

External scrutiny

There were no reports in 2021-22 on the operations of the AOFM by the Auditor General (other than the report on financial statements), a parliamentary committee or the Commonwealth Ombudsman.

B. OUR PEOPLE

The AOFM employs highly skilled people.

The AOFM relies on a technically skilled workforce. Skills are diverse but are focused primarily in finance, risk management, accounting, economics, and data management. AOFM officials maintain appropriate market and economic knowledge and tap information networks relevant to global financial markets.

Ninety per cent of AOFM staff have formal tertiary qualifications, with 27 per cent holding higher degrees and 27 per cent holding double degrees. Twenty-nine per cent hold other qualifications such as language proficiency and vocational certificates. Thirty-five per cent have professional qualifications related to the technical aspects of their role.

The Australian Public Service Commission (APSC) conducts an annual employee census for all APS agencies with at least 20 employees. The confidential survey provides insight into employees' views about the APS and their agency. In response to its 2021 census results, the AOFM undertook a program to further enhance team effectiveness, staff engagement, and an alignment of values and agency objectives. This built on the already strong organisational values and work culture.

Workforce planning

The AOFM *Workforce Plan 2019-2023* is attuned to AOFM's strategic context. It aims to maintain organisational resilience, and guide succession planning and the development of staff.

A financial market impact scenario exercise was conducted in April 2022. This is one of the workforce plan actions designed to enhance AOFM resilience and involved all AOFM staff.

Action on a skills database has been hampered by recent high staff turnover and is under review as part of the enhancements made within the learning management system.

The impact of the COVID-19 pandemic on AOFM operations has required the AOFM to update its workforce plan. This update is scheduled to commence in 2022-23.

Recruitment yielded strong results with successful candidates being highly qualified and very capable. Recruitment is targeting the right skills and experience match for AOFM roles. It is also supporting a high performing workplace that can meet current and emerging challenges. The AOFM maintains a clear understanding of its workforce composition and regularly acts on the need for professional development.

Training and development

In 2021-22, all staff participated in some form of external training or development opportunity. Forty percent of staff engaged with individually tailored programs agreed through the central learning and development committee. These included 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 via 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 $2,776 per full time equivalent (FTE) employee – a 42 per cent uptick in investment in this area.

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. The CEO has authorised adjustments to AOFM pay rates via 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 2021-22 (headcount)

Employment arrangement	SES[1] Officer	Non-SES Officer	Total
Determinations under subsection 24(1) of *the Public Service Act 1999*	1	43	44
Enterprise agreement	0	43	43
Total	**1**	**43**	**44**

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

Remuneration of Staff

All non-SES staff had terms and conditions set during 2021-22 by the AOFM *Enterprise Agreement 2015-2018* and all staff determinations on salary rates made under subsection 24(1) of the PS 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.

Table 19: AOFM salary ranges by classification (minimum/maximum) for 2021-22

APS classification	Minimum	Maximum
SES 3	332,785	398,320
EL 2	189,951	324,774
EL 1	130,357	165,716
APS 6	97,710	124,213
APS 5	79,943	101,628
APS 4	73,931	83,541
APS 2	56,186	63,490
APS 1	44,949	50,792
Minimum/Maximum range	**44,949**	**398,320**

Individual remuneration within the range for a classification depends on performance ratings. The AOFM 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 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 encouraged to get flu vaccinations in early 2022 and 47 per cent of staff took advantage of this employer-provided 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.

In response to the COVID-19 pandemic, the AOFM provided weekly newsletters to all staff regarding pandemic health advisories and agency-specific working arrangements until the end of July 2021. A high standard of personal hygiene and social distancing is constantly required in the office. This is supported by supplies of hand sanitiser, cleaning products, and disposable gloves and face masks. Rapid antigen tests have also been made available. The balance of home-based and office work has changed over the period and the AOFM moved to full occupancy towards the end of the reporting period under a new work from home policy that specifically considers the potential for ongoing workplace disruption due to further outbreaks of COVID-19. Aspects of the policy were considered in conjunction with an independent review of COVID-19 transmission controls undertaken by Robson Environmental Pty Ltd.

At the end of the reporting period, a little over a third of AOFM staff had contracted COVID-19 at some time during the financial year. No employees were able to identify the AOFM workplace as the source of infection.

There were no compensable injury claims or notifiable incidents in 2021-22.

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 online on Australia's Disability Strategy hub.[5]

Disability reporting is included the APSC's State of the Service reports and the APS Statistical Bulletin. These reports are available on the APSC website.[6]

AOFM workforce

At 30 June 2022, AOFM employed 42.8 paid FTE staff. Full details of staffing breakdowns for 2021-22 (at 30 June 2022) and 2020-21 (at 30 June 2021) are shown in the following tables.

5 The *Australia's Disability Strategy 2021-2031* (the Strategy) is available at: https://www.disabilitygateway.gov.au/ads. Progress reports can be found at https://www.dss.gov.au.

6 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 www.apsc.gov.au.

Table 20: APS ongoing employees by classification (headcount)

	Male			Female			Total
	Full time	Part time	Total	Full time	Part time	Total	
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**
2020-21							
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	7	0	**7**	2	0	**2**	**9**
EL 1	7	1	**8**	3	2	**5**	**13**
APS 6	6	0	**6**	3	0	**3**	**9**
APS 5	4	1	**5**	3	0	**3**	**8**
APS 4	0	0	**0**	1	1	**2**	**2**
APS 3	0	0	**0**	0	0	**0**	**0**
Total	**25**	**2**	**27**	**12**	**3**	**15**	**42**

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

	Male			Female			Total
	Full time	Part time	Total	Full time	Part time	Total	
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**
2020-21							
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	4	0	**4**	1	0	**1**	**5**
APS 4	0	0	**0**	0	0	**0**	**0**
APS 3	0	0	**0**	0	0	**0**	**0**
Total	**4**	**0**	**4**	**1**	**0**	**1**	**5**

Table 22: All ongoing employees by state in 2021-22 (headcount)

	Male			Female			Total
	Full time	Part time	Total	Full time	Part time	Total	
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**
2020-21							
NSW	2	0	2	0	0	0	2
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	23	2	25	12	3	15	40
NT	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0
Total	**25**	**2**	**27**	**12**	**3**	**15**	**42**

Table 23: All non-ongoing employees by state in 2021-22 (headcount)

	Male			Female			Total
	Full time	Part time	Total	Full time	Part time	Total	
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**
2020-21							
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	4	0	4	1	0	1	5
NT	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0
Total	**4**	**0**	**4**	**1**	**0**	**1**	**5**

During 2021-22, 4 employees were seconded to other agencies.
Two employees were seconded to Treasury late in the reporting period for a few weeks. One was seconded to Services Australia for 5 months. The other was seconded for 6 months to the ANAO.

Employees who identify as Indigenous Australians

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

Changes to senior management

The Head of Reporting and IT retired at the beginning of the reporting period. The business unit was reviewed and restructured, and a new position of Head of BDS was created. This position was filled by a move at level. There were no other changes to AOFM Executive Group during 2021-22.

Other staffing changes

Thirteen ongoing employees and 3 non-ongoing employees were recruited during 2021-22. Ten ongoing employees left during the year, along with 6 non-ongoing employees.

Staff departures represented around 36 per cent of average staffing levels in 2021-22 (17.5 per cent in 2020-21). This level of turnover has not been seen at AOFM since before the Global Financial Crisis (GFC) and is more than double the 10-year average for AOFM turnover (14.5 per cent).

The retention rate for 2021-22 was 70 per cent, with an average annual retention rate of 87 per cent over the last 5 years. The annual retention figure for 2021-22 is the lowest since 2006-07. However, there has been no operational impact on AOFM because it has actively managed to avoid key person dependencies, has well-established business procedures and documentation in place that facilitate induction and training of new staff, and onboarding and familiarity training are embedded in the AOFM workplace culture as its workforce business model specifically acknowledges some regular staff turnover and graduate recruitment.

Remuneration of key management personnel and highly paid staff

Key management personnel (KMP) are those persons with authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly. During the period, the AOFM had 3 individuals who met the definition of KMP – the AOFM CEO, the Secretary to the Treasury and the Treasurer. Only the AOFM CEO (an SES Band 3 position) is remunerated by the AOFM.

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 key management personnel

		Short term benefits ($)			Post-employment ($)	Other long-term benefits ($)		Termination benefits ($)	Total ($)
Name	Position	Base salary and annual leave	Bonus	Other benefits	Super	Long service leave	Other	Termination benefits	Total
Rob Nicholl	CEO	416,100	-	-	53,340	11,560	-	-	481,000

The CEO's remuneration conditions are established by the Secretary to the Treasury. AOFM does not have any SES staff other than Key Management Personnel.

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 key management personnel. 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 benefits ($)		Termination benefits ($)	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
270,001 to 295,000	4	240,865	-	-	38,902	7,856	-	-	287,622
295,001 to 320,000	2	245,384	-	-	42,776	14,095	-	-	302,255
320,001 to 345,000	1	283,814	-	-	50,844	9,465	-	-	344,123
345,001 to 370,000	1	275,541	-	-	60,605	12,112	-	-	348,258

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, AOFM purchasing activities were consistent with, and reflected the principles of, the *Commonwealth Procurement Rules* (CPRs). These were applied to AOFM 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.[7] The plan was updated as required.

Reportable consultancy contracts

During 2021-22, no new reportable consultancy contracts were entered into by the AOFM. One reportable consultancy contract was active during the period, involving total actual expenditure of $1,126,279. 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.[8]

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

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

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

8 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

	2021-22
Number of consultancy contracts	
New contracts	0
Ongoing contracts	1
Expenditure (including GST)	
New contracts	$Nil
Ongoing contracts	$1,126,279

Additional information

Table 27 lists the names of the organisations that during 2021-22 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	$1,126,279

Reportable non-consultancy contracts

During 2021-22, 20 new reportable non-consultancy contracts were entered into, involving total actual expenditure of $16,301,568. In total, 51 reportable non-consultancy contracts were active during the period, involving actual expenditure of $18,671,612. 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.[9]

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

Table 28: Non-consultancy contracts

	2021-22
Number of consultancy contracts	
New contracts	20
Ongoing contracts	31
Expenditure (including GST)	
New contracts	$16,301,568
Ongoing contracts	$2,370,044

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 per cent 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 Australian Government Securities (AGS) in 2021-22.

Table 29: Additional information for non-consultancy contracts

Name of organisation	Amount received	% of total expenditure
National Australia Bank	$4,253,333	23
UBS AG Australia	$4,253,333	23
Commonwealth Bank of Australia	$ 3,300,000	18
Deutsche Bank AG Australia	$ 3,300,000	18
Westpac Banking Corporation	$ 953,333	5

ANAO Access Clauses and Exempt Contracts

Two 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. These contracts related to appointment of managers for syndicated issuance of AGS. All contracts are reported on the AusTender website.

The first contract was for the launch by syndicated issue of $3.25 billion of Treasury Indexed Bonds (a November 2032 maturity) in August 2021. The AOFM appointed National Australia Bank, Westpac Banking Corporation and UBS AG Australia to act as managers for the issuance.

The second contract was for the launch by syndicated issue of $15 billion of Treasury Bonds (a November 2033 maturity) in April 2022. The AOFM appointed Commonwealth Bank of Australia, Deutsche Bank AG Australia, National Australia Bank and UBS AG Australia to act as managers for the issuance.

ANAO access clauses were not included in the contracts as the AOFM maintains all relevant information in relation to the contracted services. Under these contracts, $16.1 million (including GST) was paid.

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 supported small business participation in the Commonwealth Government procurement market. Small and medium sized enterprises (SME) and small enterprise participation statistics are available on the Department of Finance's website.[10]

---

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

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

The AOFM recognises 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's website.[11]

Advertising campaigns

During 2021-22, the AOFM did not conduct any advertising campaigns.

The AOFM incurred expenditure of $58,440 during 2021-22 to media advertising organisations for staff recruitment.

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 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 2021-22 were $829.

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). This requirement is in Part II of the FOI Act, replacing the former requirement to publish a section 8 statement in an annual report. Each agency must display on its website a plan showing what information it publishes in

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

accordance with the IPS requirements. In 2021-22, the AOFM worked with the Treasury on 4 FOI requests, one of which was later withdrawn.

AOFM published an agency plan showing what information is published in accordance with the IPS requirements, including material relevant to the AOFM, and is accessible from the AOFM website.[12]

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 the AOFM 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 government policy in order to achieve government outcomes. Departmental activities are those activities that the AOFM has control over.

The AOFM's 2021-22 financial statements are presented in Part 4 of this report. The Auditor-General issued an unmodified audit opinion in relation to the financial statements.

Administered activities

In 2021-22, the AOFM administered one program on behalf of government. Administered expenses totalled $18,551 million (2020-21: $17,124 million), comprising primarily of interest expenses of $18,502 million (2020-21: $17,042 million) on AGS.

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

Whilst bond markets sold off during 2021-22 due to inflationary concerns, the interest rate environment remained low as compared to long-term historical averages, and accordingly continued to offer low financing costs on new borrowings and for the cost of refinancing maturing debt.

- In yield terms, gross interest costs incurred on the debt portfolio were 2.10 per cent in 2021-22 (2020-21: 2.08 per cent).
- The higher inflationary environment in 2021-22 as compared to 2020-21 has seen interest costs on Treasury Indexed Bonds (TIBs) rise significantly to $2,166 million or 4.55 per cent (2020-21: $977 million or 2.16 per cent).

In 2021-22, the AOFM repurchased $1,719 million in face value terms of the February 2022 TIB series coinciding with the launch by syndication of the November 2032 TIB series. The repurchase incurred an accounting loss of $34 million.

During 2021-22, the value of AGS debt on issue (in face value terms) increased by $78 billion (from $817 billion to $895 billion) to meet the government's funding requirements. Treasury Bonds remained the core financing instrument used by the AOFM.

In late 2021-22, financial markets repriced risk in response to an environment of higher inflation and tightening monetary policy. This resulted in a substantial increase in bond yields, and in turn a significant favourable revaluation to the fair value of the debt portfolio as at 30 June 2022. An unrealised fair value revaluation gain of $116 billion was recorded for 2021-22.

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

Departmental activities

The AOFM reported an operating surplus on departmental activities of $3.4 million for 2021-22 (2020-21: $0.6 million). This comprised revenue of $16.8 million (2020-21: $16.8 million) and expenses of $13.4 million (2020-21: $16.2 million). Employee expenses and supplier expenses fell in 2021-22 by $0.6 million and $2.2 million respectively. The AOFM's average staffing level fell by 3 in 2021-22 as compared to 2020-21. In addition, departmental expenses arising from the management of the SFSF and the ABSF fell substantially in 2021-22. Favourable market conditions led originators to seek alternative finance in funding markets.

The AOFM reported a sound net worth and liquidity position as at 30 June 2022, with net assets of $30.7 million (30 June 2021: $27.2 million). This was represented by total assets of $39.1 million (30 June 2021: $35.8 million) and total liabilities of $8.4 million (30 June 2021: $8.6 million).

As at 30 June 2022, the AOFM had unspent annual appropriations totalling $32.8 million (30 June 2021: $29.3 million). These are available to settle liabilities as and when they fall due and for future asset replacements and improvements. Approval from the Finance Minister would be required to use the unspent appropriations to meet operating losses. Annual appropriations are repealed 2 years after the financial year in which they are first available to be used (for example: the 2021-22 annual appropriations will repeal for unexpended amounts on 1 July 2024).

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
	2021-22	2021-22	
	$'000	$'000	$'000
Program1.1: Australian Office of Financial Management			
Departmental expenses			
Departmental appropriation and other receipts	14,821	12,634	2,187
Expenses not requiring appropriation in the Budget year	813	834	(21)
Administered expenses before re-measurements			
Expenses not requiring appropriation (b)	38,508	31,483	7,025
Special appropriations expenses			
Commonwealth Inscribed Stock Act 1911	18,458,934	18,516,493	(57,559)
Australian Business Securitisation Fund Act 2019	-	-	-
Structured Finance Support (Coronavirus Economic Response Package) Act 2020	-	-	-
Financial Agreement Act 1994	7	7	-
Total expenses for program1.1	**18,513,083**	**18,561,451**	**(48,368)**
Average staffing level (number)	**44**	**43**	**1**

(a) The Budget figure for 2021-22 is the estimated actual 2021-22 expenses as reported in Table 2.1 of the 2022-23 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.

Please 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: AOFM resource statement

	Note	Actual available appropriation	Net Payments made	Appropriations extinguished	=	Balance
		2021-22 $'000	2021-22 $'000	2021-22 $'000		2021-22 $'000
Ordinary annual services						
Departmental appropriation(a)(b)		46,218	12,911	665		32,642
Receipts from other sources (s74) (c)		181	-	-		181
Total departmental		**46,399**	**12,911**	**665**		**32,823**
Administered expenses						
Total administered		**-**	**-**	**-**		**-**
Total ordinary annual services	**A**	**46,399**	**12,911**	**665**		**32,823**
Other services						
Departmental non-operating		-	-	-		-
Total other services	**B**	**-**	**-**	**-**		**-**
Total available annual appropriations (A+B)		**46,399**	**12,911**	**665**		**32,823**
Special appropriations – operating						
Commonwealth Inscribed Stock Act 1911		22,020,127	22,020,127	-		-
Financial Agreement Act 1994		7	7	-		-
Public Governance, Performance and Accountability Act 2013		692	692	-		-
Subtotal		**22,020,826**	**22,020,826**	**-**		**-**
Special appropriations – investing and financing						
Commonwealth Inscribed Stock Act 1911		121,946,687	121,946,687	-		-
Subtotal		**121,946,687**	**121,946,687**	**-**		**-**
Total special appropriations	**C**	**143,967,513**	**143,967,513**	**-**		**-**

	Note	Actual available appropriation	Net Payments made	Appropriations extinguished	=	Balance
Total appropriations excluding special accounts (A + B + C)		**144,013,912**	**143,980,424**	**665**		**32,823**
Debt Retirement Reserve Trust		275	85	-		190
Structured Finance Support Fund (d)		14,666,457	269,256	-		14,397,201
Australian Business Securitisation Fund (e)		986,913	94,467	-		892,446
Total Special Accounts	**D**	**15,653,645**	**363,808**	**-**		**15,289,837**
Total net resourcing and payments for AOFM (A + B + C + D)		**159,667,557**	**144,344,232**	**665**		**15,322,660**

(a) Actual available appropriation comprises *Appropriation Act (No.1) 2021–22* plus carried forward appropriation balances at 1 July 2021.

(b) Includes capital budget appropriation for 2021-22 of $0.368 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. The special account received its third credit of funding of $500 million on 1 July 2021.

PART 4: ANNUAL FINANCIAL STATEMENTS

STATEMENT BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2022 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	Signed
R Nicholl	P Raccosta
Chief Executive Officer	Chief Financial Officer
24 August 2022	24 August 2022

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 2021 to 30 June 2022. 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 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 2022

	Notes	2022	2021
EXPENSES			
Interest expense:			
Treasury Bonds	**2**	16,314	15,984
Treasury Indexed Bonds	**3**	2,166	977
Treasury Notes		22	81
Sub-total		**18,502**	17,042
Other expenses:			
Debt repurchases		34	–
Supplier expenses		15	82
Sub-total		**49**	82
Total expenses		**18,551**	**17,124**
INCOME			
Interest revenue:			
Loans to State and Territory Governments		83	88
Cash and deposits	**6**	110	104
Structured finance securities	**7**	39	57
Total income		**232**	**249**
(Deficit) before re-measurements		**(18,319)**	(16,875)
RE-MEASUREMENTS (net market revaluation)			
Treasury Bonds		107,983	30,198
Treasury Indexed Bonds		7,937	(1,357)
Treasury Notes		11	32
Total re-measurements		**115,931**	**28,873**
Surplus (deficit)		**97,612**	**11,998**

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 2022

	Notes	2022	2021
LIABILITIES			
Interest bearing liabilities at fair value:			
Treasury Bonds	**2**	775,775	807,354
Treasury Indexed Bonds	**3**	45,224	53,809
Treasury Notes	**4**	27,451	27,250
Interest bearing liabilities at amortised cost:			
Other debt		6	6
Other liabilities:			
Loan commitments	**5**	1	2
Total liabilities		**848,457**	**888,421**
FINANCIAL ASSETS			
Cash held in the OPA		1	1
Cash held in the cash management account	**6**	86,085	56,551
Assets at amortised cost:			
Securities issued but not settled	**4**	2,490	–
Structured finance securities	**7**	803	1,850
Loans to State and Territory Governments	**8**	1,333	1,414
Accrued interest on cash management account	**6**	53	5
Total assets		**90,765**	**59,821**
Net assets (liabilities)		**(757,692)**	**(828,600)**

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

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 2022 the face value on issue was $895.2 billion. The schedule above reports the carrying value of debt in fair value (synonymous with market value) terms, being $848.5 billion. Due to a substantial increase in interest rates over the course of 2021-22, as at 30 June 2022 the fair value of the debt portfolio was lower than its face value.

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	
	2022	2021	2022	2021
LIABILITIES				
Interest bearing liabilities at fair value:				
Treasury Bonds	87,490	16,564	688,285	790,790
Treasury Indexed Bonds	-	8,243	45,224	45,566
Treasury Notes	27,451	27,250	-	-
Interest bearing liabilities at amortised cost:				
Other debt	6	6	-	-
Other liabilities:				
Loan commitments	1	2	-	-
Total liabilities	**114,948**	**52,065**	**733,509**	**836,356**
ASSETS				
Financial assets:				
Cash at bank	1	1	-	-
Cash held in the cash management account	86,085	56,551	-	-
Assets at amortised cost:				
Securities issued not settled	2,490	-	-	-
Structured finance securities	347	508	456	1,342
Loans to State and Territory Governments	82	80	1,251	1,334
Accrued interest on cash management account	53	5	–	–
Total assets	**89,058**	**57,145**	**1,707**	**2,676**

Schedule of reconciliation

Administered reconciliation schedule ($ millions)

for the period ended 30 June 2022

	Notes	2022	2021
NET ASSETS			
Opening value		(828,600)	(711,835)
Surplus (deficit)		97,612	11,998
Transactions with the OPA			
Cash management account transfers		29,534	56,551
Special appropriations (unlimited)	**10**	143,967	729,377
Transfers to OPA		(199,119)	(914,790)
Contributed equity – special accounts	**10**	500	250
Change in special account balances	**10**	(1,586)	(151)
Net assets		**(757,692)**	(828,600)

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 2022

	Notes	2022	2021
NET CASH FROM OPERATING ACTIVITIES			
Interest receipts		174	240
Other receipts		2	1
GST refunds from ATO		1	6
Interest paid on Treasury Bonds	**2**	(19,652)	(19,564)
Interest paid on Treasury Indexed Bonds	**3**	(1,760)	(1,373)
Interest paid on Treasury Notes		(9)	(112)
Interest paid on other debt instruments		(10)	(13)
Other payments		(17)	(88)
Net cash from operating activities	**9**	**(21,271)**	**(20,903)**
NET CASH FROM INVESTING ACTIVITIES			
Capital proceeds from deposits		–	604,950
Capital proceeds from structured finance securities		1,417	1,501
State and Territory loan repayments		94	92
Acquisition of structured finance securities		(364)	(1,652)
Acquisition of deposits		–	(535,000)
Net cash from investing activities		**1,147**	**69,891**
NET CASH FROM FINANCING ACTIVITIES			
Capital proceeds from borrowings		198,264	308,850
Other receipts		45	135
Repayment of borrowings		(121,901)	(172,523)
Other payments		(45)	(135)
Net cash from financing activities		**76,363**	**136,327**

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

Administered cash flow statement ($ millions) (continued)

for the period ended 30 June 2022

	Notes	2022	2021
TRANSACTIONS WITH OPA			
Cash management account transfers		29,534	56,551
Appropriations – unlimited special	**10**	143,967	729,377
Appropriations – special accounts		363	1,652
Receipts to OPA – special accounts		(1,450)	(1,554)
Receipts to OPA – other		(199,119)	(914,790)
Net cash from OPA		**(26,705)**	**(128,764)**
Net change in cash held		**29,534**	**56,551**
+ cash held at the beginning of period		56,552	1
Cash held at the end of the period (a)		**86,086**	**56,552**

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

(a) In November 2020 the AOFM established a new liquidity facility – a cash management account with the RBA to manage cash liquidity more flexibly and more efficiently. The principal balance of the cash management account is reported as 'cash' on the administered balance sheet.

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)

	2022	2021
Fixed interest rate exposures		
Assets (a)	**3,876**	1,419
Liabilities	**(848,450)**	(888,413)
Floating interest rate or non-interest bearing exposures		
Assets (a)	**86,889**	58,402
Liabilities	**(7)**	(8)

(a) Figures for 2020-21 have been reclassified to correct disclosures made in the 2020-21 annual financial statements. An amount of $56,546m was incorrectly included in "Fixed interest rate exposures" in the prior period and has been corrected in the comparative disclosure.

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 79 basis points rise in interest rates (2020-21: +74) ($m)

	2022	2021
Financial Liabilities		
Changes in fair value:		
Treasury Bonds	33,796	38,704
Treasury Indexed Bonds	3,004	3,377
Treasury Notes	27	35
Financial Assets		
Changes in interest revenue:		
Structured finance securities	6	14

Sensitivity of 30 June balances to a 79 basis points fall in interest rates (2020-21: -74) ($m)

	2022	2021
Financial Liabilities		
Changes in fair value:		
Treasury Bonds	(36,539)	(41,965)
Treasury Indexed Bonds	(3,360)	(3,801)
Treasury Notes	(27)	(35)
Financial Assets		
Changes in interest revenue:		
Structured finance securities	(6)	(14)

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 79 basis points (74 basis points for 2020-21) 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 for warehouse securitisation vehicles through the ABSF and SFSF, 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 lines index value for next interest payment as at 30 June

	First issued	2022	2021	2020
20 Aug 20 – 4.00%	Oct-96			176.55
21 Feb 22 – 1.25%	Feb-12		118.14	116.97
20 Sep 25 – 3.00%	Sep-09	**132.71**	127.23	125.97
21 Nov 27 – 0.75%	Aug-17	**111.26**	106.66	105.60
20 Sep 30 – 2.50%	Sep-10	**129.46**	124.12	122.89
21 Nov 32 – 0.25%	Aug-21	**104.36**		
21 Aug 35 – 2.00%	Sep-13	**119.99**	115.04	113.90
21 Aug 40 – 1.25%	Aug-15	**115.14**	110.39	109.29
21 Feb 50 – 1.00%	Sep-18	**109.14**	104.64	103.60

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 2020-21 and 2021-22 cash management investments have, consistent with past practice, been restricted to deposits with the RBA. Cash deposits with the RBA are considered to carry zero credit risk.

For proposed investments in structured finance securities, the AOFM will use credit rating assessments by a credit rating agency. Where a structured finance security is not rated by a credit rating agency, it will engage an advisor to support 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 30 June 2022:

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

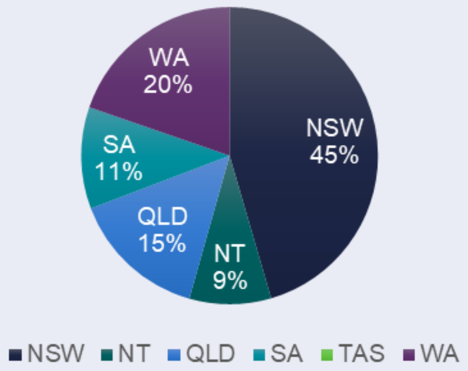
Exposure by fund	Current exposure	Undrawn commitments	Total credit committed
Australian Business Securitisation Fund (ABSF)			
Public term transactions (a)	-	-	-
Private warehouse transactions (b)	111	215	326
Sub-total	**111**	**215**	**326**
Structured Finance Support Fund (SFSF)			
Public term transactions (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 2022, the principal outstanding on these loans was $1,460 million.

Composition of loans to state and territory governments as at 30 June 2022:



In relation to those loans administered by the AOFM, as at 30 June 2022 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	
	2022	2021
Aaa / AAA	-	-
Aa1 / AA+	1,327	1,416
Aa2 / AA	-	-
Aa3 / AA-	133	138
Total	**1,460**	**1,554**

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 securities 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 value of these securities.

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 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 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**

Future undiscounted cash outflows of liabilities as at 30 June 2021 ($m)

	Treasury Bonds	Treasury Indexed Bonds	Treasury Notes & Other	Total
Principal payments:				
within 1 year	16,398	8,082	27,252	51,732
1 to 5 years	248,662	9,851	–	258,513
5 to 10 years	324,200	14,006	–	338,206
10 to 15 years	98,450	5,004	–	103,454
15 years+	63,200	8,328	–	71,528
Total Principal	**750,910**	**45,271**	**27,252**	**823,433**
Interest payments:				
within 1 year	19,016	802	3	19,821
1 to 5 years	59,624	2,681	–	62,305
5 to 10 years	38,478	1,839	–	40,317
10 to 15 years	12,092	894	–	12,986
15 years+	11,579	791	–	12,370
Total Interest	**140,789**	**7,007**	**3**	**147,799**

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 2022 ($m)

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

Fair value hierarchy for assets and liabilities as at 30 June 2021 ($m)

	Carried at fair value			Carried at amortised
	Level 1	Level 2	Level 3	
Liabilities	(888,413)	-	-	(8)
Assets	-	-	-	59,821

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 AOFM 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)

	2022	2021
Interest paid / payable	19,918	19,630
Amortisation of net premiums	(3,604)	(3,646)
Interest expense	**16,314**	**15,984**

Whilst the interest expense on the Treasury Bond portfolio has risen over time due to higher borrowing levels, the accrual cost in yield terms has fallen from 2.20 per cent in 2020-21 to 2.03 per cent in 2021-22.

Carrying values – administered liabilities ($m)

	2022	2021
Face value	830,512	750,910
Accrued interest	3,570	3,304
Unamortised net premiums	11,865	15,329
Market value adjustment	(70,172)	37,811
Carrying value	**775,775**	**807,354**

At 30 June 2022 the weighted average market yield on Treasury Bonds was 3.27 per cent (30 June 2021: 0.99 per cent). At 30 June 2022 the weighted average (nominal) issuance yield on Treasury Bonds was 2.04 per cent (30 June 2021: 2.07 per cent). These figures are face value weighted.

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

	2022	2021
Issuance	96,000	207,300
Debt repurchased	..	..
Maturities	(16,398)	(43,545)
Change in principal value	**79,602**	**163,755**

Interest paid – schedule of cash flows ($m)

	2022	2021
Coupons paid	20,220	20,125
Interest received on issuance	(568)	(561)
Interest paid on repurchase	..	..
Interest paid	**19,652**	**19,564**

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)

	2022	2021
Interest paid / payable	810	810
Capital accretion and amortisation of net premiums	1,356	167
Interest expense	**2,166**	**977**

Carrying values – administered liabilities ($m)

	2022	2021
Principal (adjusted capital value):		
Face value	37,235	38,826
Capital accretion (to next coupon)	7,303	6,445
Principal value	**44,538**	**45,271**
Accrued interest	46	53
Unamortised net premiums	1,568	1,476
Market value adjustment	(928)	7,009
Carrying value	**45,224**	**53,809**

At 30 June 2022, the weighted average market (real) yield on Treasury Indexed Bonds was 0.88 per cent (30 June 2021: -0.95 per cent).

At 30 June 2022, the weighted average (real) issuance yield on Treasury Indexed Bonds was 1.00 per cent (30 June 2021: 1.21 per cent). These figures are face value weighted.

Changes in principal value for the period ($m)

	2022	2021
Changes in face value due to:		
Issuance	5,250	2,500
Debt repurchased	(1,720)	–
Maturities	(5,121)	(2,061)
Changes in capital accretion due to:		
Issuance	322	337
Debt repurchased	(326)	–
Maturities	(1,016)	(1,578)
Accretion for the period	1,878	454
Change in principal value	**(733)**	**(348)**

Interest paid – schedule of cash flows ($m)

	2022	2021
Coupons paid	820	831
Interest received on issuance	(3)	(8)
Interest paid on repurchase	1	–
Accretion since issuance (paid on redemption)	942	550
Interest paid	**1,760**	**1,373**

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

Carrying values – administered liabilities ($m)

	2022	2021
Face value (a)	27,500	27,250
Unexpired interest discount	(38)	..
Market value adjustment	(11)	..
Carrying value	**27,451**	**27,250**

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

	2022	2021
Issuance (a)	98,500	94,500
Maturities	(98,250)	(126,000)
Change in principal value	**250**	**(31,500)**

(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 has been 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. The AOFM does not re-balance the loan commitment liability periodically to reflect the actual pattern of usage. 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)

	2022	2021
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	2
Sub-total	**1**	**2**
TOTAL		
Loan commitments liabilities	..	–
Expected credit loss provision	**1**	2
Total	**1**	**2**

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-related rate of interest. The agreement is structured so that on a daily basis, 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.

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)

	2022	2021
Interest received / receivable – CMA	110	45
Interest received / receivable – term deposits	–	59
Carrying value	**110**	**104**

Carrying values – administered assets ($m)

	2022	2021
Face value	86,085	56,551
Accrued interest (a)	53	5
Carrying value	**86,138**	**56,556**

(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)

	2022	2021
Interest and fees received / receivable	31	54
Amortisation of discounts	4	6
Concessional loan discounts	..	–
Impairment provision (expenses) revenues	4	(3)
Interest revenue (a)	**39**	**57**

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

Interest revenue for 2021-22 comprises $2.4 million for the ABSF and $37 million for the SFSF.

Carrying values – administered assets ($m)

	2022	2021
Australian Business Securitisation Fund (ABSF)		
Face value	111	102
Unamortised net discounts	..	–
Accrued Interest	..	..
Expected credit loss provision	..	..
ABSF Sub-total	**111**	**102**
Structured Finance Support Fund (SFSF) (a)		
Face value	695	1,757
Unamortised net discounts	(3)	(7)
Accrued Interest	1	2
Expected credit loss provision	(1)	(4)
SFSF Sub-total	**692**	**1,748**
Total carrying Value	**803**	**1,850**
Expected to be received (b):		
Within one year	347	508
In one to five years	456	1,320
In more than five years	–	22
Carrying value by expected recovery	**803**	**1,850**
Ageing:		
Not overdue	803	1,850
Overdue	–	–
Carrying value by ageing	**803**	**1,850**

(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)

	2022	2021
Australian Business Securitisation Fund (ABSF)		
Acquisitions	94	100
Redemptions	(85)	(13)
Total change in principal value for ABSF	**9**	**87**
Structured Finance Support Fund (SFSF) (a)		
Acquisitions	269	1,432
Redemptions	(1,331)	(1,488)
Total change in principal value for SFSF	**(1,062)**	**(56)**

(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. 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 2021-22 was $1.6 million (2020-21: $0.6 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 2022 ($m)

	2022	2021
Forbearance SPV		
Face value of securities	26	38
Accrued Interest	..	..
Expected credit loss provision	..	..
Total Carrying Value	**26**	**38**

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

	2022	2021
Forbearance SPV		
Acquisitions	–	47
Redemptions	(12)	(9)
Total change in principal value	**(12)**	**38**

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)

	2022	2021
Face value	1,460	1,554
Unamortised net discounts	(127)	(140)
Accrued interest	..	..
Carrying value	**1,333**	**1,414**
Expected to be received:		
Within one year	82	80
In one to five years	338	330
In more than five years	913	1,004
Carrying value by expected recovery	**1,333**	**1,414**
Ageing:		
Not overdue	1,333	1,414
Overdue	–	–
Carrying value by ageing	**1,333**	**1,414**

The fair value of these loans was $1,543 million at 30 June 2022 (2020-21: $1,935 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)

	2022	2021
Surplus	97,612	11,998
Adjustments for non-cash items:		
Amortisation and capital accretion of debt instruments	(2,249)	(3,479)
Amortisation of financial assets	(17)	(20)
Concessional loan discounts	..	–
Impairment provision expenses (revenues)	(4)	3
Re-measurements	(115,931)	(28,873)
Adjustments for cash items:		
Capital accretion costs on redemption of debt	(943)	(550)
Debt repurchases	34	–
Accrual adjustments:		
Interest accruals on debt	226	22
Interest accruals on assets	1	(4)
Net cash from operating activities	**(21,271)**	**(20,903)**

Note 10: Appropriations

Administered special appropriations – unlimited ($’000)

	2022	2021
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	141,880,324	194,288,950
s13A – payment of costs and expenses incurred in relation to issuing and managing debt and depository interests	16,739	87,589
s13B – payment of costs and expenses incurred in repurchasing debt prior to maturity	2,069,751	545
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)	7	7
Public Governance, Performance and Accountability Act 2013		
s58(7) – investments made in the name of the Commonwealth of Australia (b)	–	535,000,000
s77 – repayment of monies received where there is no appropriation for the repayment	692	3
Total	**143,967,513**	**729,377,094**

(a) The 2021-22 amount includes $829 paid into the Debt Retirement Reserve Trust Account (2020-21: $605).

(b) On 7 November 2020 the term deposit investment facility with the RBA was replaced with a cash management account. The reported figures comprise investments made in term deposits only. The cash management account was created under the authority of section 53 of the *Public Governance, Performance and Accountability Act 2013* and deposits made into the account from the OPA do not entail the use of an appropriation as it is considered part of the Consolidated Revenue Fund.

The following administered special appropriations are available but were not used by the AOFM during 2021-22 and 2020-21:

- *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.
- *Loans Securities Act 1919*, sec 5BA – Purpose: payment of money to enter into securities lending arrangements.
- *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 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.

The following table details the investments (in face value terms) made in the name of the Commonwealth under the authority of section 58 of the *Public Governance, Performance and Accountability Act 2013*.
On 7 November 2020 the AOFM ceased making investments under section 58.

PGPA Act investments – in face value ($'000)

	2022	2021
Opening balance	–	69,950,000
Acquisitions	–	535,000,000
Redemptions and sales	–	(604,950,000)
Closing balance	**-**	**-**

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

	2022	2021
Opening balance	398,500	235,314
Statutory credit to the special account	500,000	250,000
Investments made	(94,467)	(100,072)
Capital proceeds received from investments	85,442	12,569
Interest and commitment fees received	2,971	689
Closing balance	**892,446**	**398,500**
Balance represented by:		
Cash – held in the Official Public Account	892,446	398,500

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, occur on 1 July 2021, 1 July 2022, and 1 July 2023.

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

	2022	2021
Opening balance	13,305,485	13,316,015
Statutory credit to the special account	–	–
Investments made	(269,256)	(1,551,842)
Capital proceeds received from investments	1,331,414	1,488,024
Interest and commitment fees received	29,557	53,226
Other payments	–	(12)
Other receipts	1	74
Closing balance	**14,397,201**	**13,305,485**
Balance represented by:		
Cash – held in the Official Public Account	14,397,201	13,305,485

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)

	2022	2021
Investments made	–	(47,023)
Capital proceeds received from investments	12,843	8,648
Interest received	1,639	635
Other payments	–	–
Other receipts	1	74
Net cash inflows (outflows) for the Forbearance SPV	**14,483**	**(37,666)**

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)

	2022	2021
Opening balance	24	45
Commonwealth contributions and interest paid	1	..
State contributions	250	2
Debt repayments made	(85)	(23)
Closing balance	**190**	**24**
Balance represented by:		
Cash – held in the Official Public Account	**190**	24

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 DRRTA are applied to repurchase debt of the States and the Northern Territory.

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. The Budget is usually released in the second week of May each year for the financial year commencing the following July and three forward years (the 'out' 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 Headline Cash Surplus/Deficit (which represents net cash flows after operating activities and investing activities for policy purposes; and before investments for liquidity purposes and financing activities) is the closest published aggregate to this financing task. The 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 2022	Budget (a) 2022	Variance 2022
EXPENSES			
Interest expense	18,502	18,164	338
Other expenses	49	33	16
Total expenses	**18,551**	**18,197**	**354**
INCOME			
Interest revenue	232	195	37
Total income	**232**	**195**	**37**
Surplus (deficit) before re-measurements	**(18,319)**	**(18,002)**	**(317)**
Re-measurements	115,931	260	115,671
Total re-measurements	**115,931**	**260**	**115,671**
Surplus (deficit)	**97,612**	**(17,742)**	**115,354**

(a) Original Budget released in May 2021. The Budget figures are not audited.

Significant variances in expenses before re-measurements

Interest expense for 2021-22 was $338 million higher than forecast in the 2021-22 Budget. This comprises a favourable variance of $408 million on Treasury Bonds, an unfavourable variance of $4 million on Treasury Notes and an unfavourable variance of $742 million on Treasury Indexed Bonds. These variances are due to offsetting factors. The interest rate and inflationary environment in 2021-22 was higher than forecast at Budget (released in May 2021), which led to higher costs on new borrowings raised by the issuance of Treasury Bonds, and higher inflation accretion costs on the portfolio of Treasury Indexed Bonds. The improving Budget position throughout 2021-22 resulted in a reduction of $34 billion in Treasury Bonds issuance for the year as compared to Budget (from $130 billion to $96 billion).

Other expenses for 2021-22 were $16 million higher than forecast in the Budget. Actual other expenses of $49 million primarily comprised a $34 million accounting loss on the repurchase of $1.7 billion (in face value terms) of the February 2022 Treasury Indexed Bonds series, and $15 million in syndication costs (net of GST recoveries). At Budget the AOFM did not plan to conduct debt repurchases in 2021-22, however with the launch of the new November 2032 Treasury Indexed Bonds series the AOFM decided to conduct a buy-back to facilitate investor transition into the new series. In addition, due to a higher forecast issuance task at Budget, forecast syndication activity and associated costs were higher.

Significant variances in income before re-measurements

Interest revenue for 2021-22 was $37 million higher than forecast in the 2021-22 Budget. This comprises a favourable variance of $90 million on cash deposits held for liquidity purposes, and which is offset by an unfavourable variance of $53 million on securitisation investments. Cash deposit revenue was higher due to a richer average cash position throughout 2021-22 and a higher interest rate environment than forecast. In relation to securitisation investments, actual investment activity was significantly lower than forecast due to a substantial improvement in conditions in funding markets. A large number of originators chose to exit the SFSF and seek alternative finance as a result of the improved market conditions. The favourable market conditions also led to SME originators focussing on funding from private investors rather than seeking ABSF funding. In addition, a heightened level of corporate activity (mergers and acquisitions) in the SME lending industry has caused some potential ABSF transactions to be shelved or otherwise delayed, pending resolution. This has led to lower investment balances and thus lower income.

Significant variances in re-measurements

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 when the budget estimates are prepared). Due to this assumption, re-measurements of the AGS portfolio for changes in market interest rates are not significant for 2021-22 in the Budget. Actual market yields at 30 June 2022 were significantly higher along the entire Treasury Bonds yield curve as compared to Budget. By way of illustration, the 10-year Treasury Bonds yield rose by around 220 basis points from 30 June 2021 to 30 June 2022. The higher market interest rates resulted in a substantial favourable revaluation to the fair value of the debt portfolio as at 30 June 2022. There is an inverse relationship between yield and price for bonds.

Administered schedule of assets and liabilities ($m)

	Outcome 2022	Budget (a) 2022	Variance 2022
LIABILITIES			
Interest bearing liabilities (at fair value)	848,450	1,028,091	(179,641)
Other liabilities	7	122	(115)
Total liabilities	**848,457**	**1,028,213**	**(179,756)**
ASSETS			
Cash at bank (excluding special accounts)	86,086	55,328	30,758
Investments	803	4,742	(3,939)
Securities issued but not settled	2,490	-	2,490
Loans to State and Territory Governments	1,333	1,334	(1)
Accrued interest on cash management account	53	–	53
Total assets	**90,765**	**61,404**	**29,361**
Net assets	**(757,692)**	**(966,809)**	**209,117**

(a) Original Budget released in May 2021. The Budget figures are not audited.

Significant variances in interest bearing liabilities

The fair value of the AGS portfolio experienced a favourable change of $179.6 billion as compared to Budget forecasts. The stronger than forecast fiscal position from late 2020-21 and onwards resulted in lower AGS issuance, and in turn lower than forecast AGS debt outstanding at 30 June 2021 of around $3 billion as compared to Budget. In 2021-22 the strong fiscal environment contributed to a further reduction in AGS issuance of around $56 billion (in face value terms). Moreover, the higher interest rate environment resulted in a $116 billion favourable fair value revaluation of AGS debt in 2021-22; and led to lower than forecast issuance premiums for 2021-22 of around $5 billion.

Significant variances in assets

The better than expected fiscal performance for 2021-22 resulted in a richer cash position than forecast by $30.8 billion at year end. In relation to securitisation investments, a substantial improvement in market conditions resulted in originators choosing to exit the SFSF, and to seek private financing opportunities rather than seeking funding from the SFSF. The favourable market conditions also led to SME originators focussing on funding from private investors rather than seeking ABSF funding. In addition, a heightened level of corporate activity (mergers and acquisitions) in the SME lending industry has caused some potential ABSF transactions to be shelved or otherwise delayed, pending resolution. This has led to lower investment balances.

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.

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)	
	2022	2021	2022	2021
Overnight:				
Treasury Bonds	88	66	2,612	5,337
Treasury Indexed Bonds	124	55	1,443	650
Intra-day:				
Treasury Bonds	-	1	-	250
Treasury Indexed Bonds	-	-	-	-
Total	**212**	**122**	**4,055**	**6,237**

One transaction for $8 million for Treasury Indexed Bonds was open at the beginning of the year. This transaction is included in the above figures.

18 transactions were open for $207 million for Treasury Bonds and Treasury Indexed Bonds at the end of the year. These transactions are not included in the above table.

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 2022

	Notes	2022	2021	Budget 2022	Variance from Budget
NET COST OF SERVICES					
EXPENSES					
Employee benefits	**A**	7,618	8,194	8,579	(961)
Supplier expenses	**A**	5,215	7,400	7,993	(2,778)
Depreciation and amortisation	**C, D**	574	574	553	21
Interest on lease liabilities	**F**	61	64	61	-
Asset write-offs		-	13	-	-
Total expenses		**13,468**	**16,245**	**17,186**	**(3,718)**
OWN-SOURCE INCOME					
Staff secondments		51	57	25	26
Resources received free of charge		260	298	327	(67)
Total own-source income		**311**	**355**	**352**	**(41)**
Net cost of services		**(13,157)**	**(15,890)**	**(16,834)**	**3,677**
APPROPRIATION FUNDING					
Revenue from government		16,513	16,499	16,513	-
Total appropriation funding		**16,513**	**16,499**	**16,513**	**–**
Surplus (deficit)		**3,356**	**609**	**(321)**	**3,677**
OTHER COMPREHENSIVE INCOME					
Makegood revaluation		(23)	-	-	(23)
Comprehensive income		**3,333**	**609**	**(321)**	**3,654**

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in May 2021 (Budget figures are not audited).

Statement of financial position

Statement of financial position ($'000)

as at 30 June 2022

	Notes	2022	2021	Budget 2022	Variance from Budget
ASSETS					
Financial assets:					
Cash and cash equivalents		100	100	100	–
Receivables	**B**	32,560	28,633	28,371	4,189
Non-financial assets:					
Property, plant, and equipment	**C**	5,730	6,117	6,038	(308)
Computer software	**D**	433	613	687	(254)
Supplier prepayments		280	355	152	128
Total assets		**39,103**	**35,818**	**35,348**	**3,755**
LIABILITIES					
Payables:					
Supplier payables		906	749	177	729
Salary and superannuation		176	141	118	58
Provisions:					
Employee provisions	**E**	2,675	2,896	2,650	25
Lease liabilities	**F**	4,142	4,375	4,145	(3)
Other provisions	**G**	483	460	460	23
Total liabilities		**8,382**	**8,621**	**7,550**	**832**
Net assets		**30,721**	**27,197**	**27,798**	**2,923**
EQUITY					
Retained surplus		39,070	35,714	35,284	3,786
Asset revaluation reserve		315	338	338	(23)
Contributed equity		(8,664)	(8,855)	(7,824)	(840)
Total equity		**30,721**	**27,197**	**27,798**	**2,923**

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in May 2021 (Budget figures are not audited).

Current/non-current balances ($'000)

	Current		Non-Current	
	2022	2021	2022	2021
ASSETS				
Financial assets:				
Cash and cash equivalents	100	100	-	-
Receivables	15,598	11,634	16,962	16,999
Non-financial assets:				
Property, plant, and equipment	–	–	5,730	6,117
Computer software	-	-	433	613
Supplier prepayments	280	355	-	-
Total assets	**15,978**	**12,089**	**23,125**	**23,729**
LIABILITIES				
Payables:				
Supplier payables	906	749	-	-
Salary and superannuation	176	141	-	-
Provisions:		-		
Employee provisions	724	879	1,951	2,017
Lease liabilities	241	233	3,901	4,142
Other provisions	-	-	483	460
Total liabilities	**2,047**	**2,002**	**6,335**	**6,619**

Statement of changes in equity

Statement of changes in equity ($'000)

for the period ended 30 June 2022

	Notes	2022	2021	Budget 2022	Variance from Budget
RETAINED SURPLUS					
Opening balance		**35,714**	35,105	**35,605**	**109**
Surplus (deficit)		3,356	609	(321)	3,677
Retained surplus		**39,070**	**35,714**	**35,284**	**3,786**
ASSET REVALUATION RESERVE					
Opening balance		**338**	338	**338**	**-**
Makegood revaluation		(23)	-	-	(23)
Asset revaluation reserve		**315**	**338**	**338**	**(23)**
CONTRIBUTED EQUITY					
Opening balance		**(8,855)**	(8,556)	**(8,190)**	**(665)**
Capital injection		368	366	366	2
Appropriations extinguished	**I**	(177)	(665)	-	(177)
Contributed equity		**(8,664)**	**(8,855)**	**(7,824)**	**(840)**
Total equity		**30,721**	**27,197**	**27,798**	**2,923**

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in May 2021 (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 2022

	Notes	2022	2021	Budget 2022	Variance from Budget
NET CASH FROM OPERATING ACTIVITIES					
Appropriations: Operating		12,905	14,906	16,489	(3,584)
GST received from ATO		2	3	–	2
Services and other		179	131	25	154
Employees		(7,757)	(7,856)	(8,530)	773
Suppliers		(4,854)	(6,761)	(7,666)	2,812
Interest paid on leases		(61)	(64)	(61)	–
Transfers to OPA (a)		(181)	(134)	(25)	(156)
Net operating activities	**H**	**233**	**225**	**232**	**1**
NET CASH FROM INVESTING ACTIVITIES					
Purchase of assets		(6)	(221)	(368)	362
Net investing activities		**(6)**	**(221)**	**(368)**	**362**
NET CASH FROM FINANCING ACTIVITIES					
Appropriations: Capital		6	221	368	(362)
Lease liability		(233)	(225)	(232)	(1)
Net financing activities		**(227)**	**(4)**	**136**	**(363)**
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 May 2021 (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)

	2022	2021
Wages and salaries	6,784	6,738
Superannuation	1,054	1,148
Leave entitlements	(223)	300
Other employee expenses	3	8
Total	**7,618**	**8,194**

For 2021-22 the AOFM's average staffing level was 43, which represented a decrease (by 3) from an average staffing level of 46 in 2020-21.

The below table sets out the CEO's actual remuneration (on an accruals basis).

Key Management Personnel ($'000)

	2022	2021
Salary and other short-term benefits	385	375
Annual leave accrued	31	29
Long service leave accrued	12	11
Post-employment benefits (superannuation)	53	53
Total	**481**	**468**

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. Only the CEO is remunerated by the AOFM.

Supplier expenses ($'000)

	2022	2021
Collateral verification agent services (a)	53	1,199
Consultants and contractors for ABSF and SFSF	157	437
Corporate support services	914	931
Internal and external audit services	526	469
Investment management services for ABSF and SFSF	940	1,250
Legal (b)	47	575
Market data services	552	538
Other	1,051	1,122
Travel	150	27
Treasury management system	527	611
Trust management expenses (a)	254	215
Workers compensation premium	43	26
Total	**5,215**	**7,400**

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

(b) In 2020-21 legal expenses primarily relate to assistance with developing transaction documents for the Forbearance SPV and advice on legal documentation arising from transaction due diligence and execution for the ABSF and the SFSF.

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)

	2022	2021
Goods and services (related)	14	53
Appropriations receivable	32,546	28,572
GST and FBT	–	8
Total	**32,560**	**28,633**

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

Recovery of receivables expected in ($'000)

	2022	2021
No more than 12 months	15,598	11,634
More than 12 months	16,962	16,999
Total	**32,560**	**28,633**

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. The last revaluation was performed as at 31 March 2020. At 30 June 2022, the AOFM had cumulative net revaluation losses of $81,065 for plant and equipment which were recognised as expenses in the Statement of Comprehensive Income in previous reporting periods. At 30 June 2022, the balance of the asset revaluation reserve represents 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)

	2022	2021
Gross value:		
Leasehold improvements	2,025	2,025
Plant and equipment	289	283
Right-of-use asset – lease premises	4,820	4,820
Accumulated depreciation:		
Leasehold improvements	(494)	(407)
Plant and equipment	(33)	(19)
Right-of-use asset – lease premises	(877)	(585)
Total	**5,730**	**6,117**

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

Reconciliation of changes in gross value ($'000)

	2022	2021
Opening value	**7,128**	**7,099**
Purchases	6	45
Disposals	–	(16)
Closing value	**7,134**	**7,128**

Reconciliation of changes in accumulated depreciation ($'000)

	2022	2021
Opening value	**(1,011)**	**(621)**
Depreciation charge for period		
Leasehold improvements	(87)	(86)
Plant and equipment	(14)	(14)
Right-of-use asset	(292)	(292)
Disposals	–	2
Closing value	**(1,404)**	**(1,011)**

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

	2022	2021
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 reassessed in 2021-22 and no changes were made to useful lives.
No change was made to depreciation expenses for 2021-22 arising from useful life revisions (2020-21: 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)

	2022	2021
Gross value	1,696	1,696
Accumulated amortisation	(1,263)	(1,083)
Total	**433**	**613**

No indicators of impairment were identified for computer software.

Reconciliation of changes in gross value ($'000)

	2022	2021
Opening value	**1,696**	**1,520**
Purchases	–	176
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 (2020-21: three to ten years).

Reconciliation of changes in accumulated amortisation ($'000)

	2022	2021
Opening value	**(1,083)**	**(901)**
Amortisation charge for period	(180)	(182)
Closing value	**(1,263)**	**(1,083)**

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. An 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)

	2022	2021
Annual leave	663	711
Long service leave	1,648	1,823
Superannuation on-costs	364	362
Total	**2,675**	**2,896**

Payment of employee provisions expected in ($'000)

	2022	2021
No more than 12 months	724	879
More than 12 months	1,951	2,017
Total	**2,675**	**2,896**

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)

	2022	2021
Opening value		
Recognised on adoption of AASB 16	4,375	4,600
Amounts recognised in profit or loss:		
Interest expense on lease liability	61	64
Amounts recognised in cash flow:		
Lease payments	(294)	(289)
Closing value	**4,142**	**4,375**
Discounted amount recognised in the Statement of Financial Position:		
Current	241	233
Non-current	3,901	4,142
Total	**4,142**	**4,375**

Future estimated lease payments ($'000)

	2022	2021
Undiscounted cash flows:		
Less than 1 year	298	293
One to five years	1,245	1,227
More than five years	3,033	3,349
Total	**4,576**	**4,869**

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 AOFM's discretion. The present value of the makegood provision was assessed as at 30 June 2022 in accordance with advice from an independent expert.

Other provisions ($'000)

	2022	2021
Makegood on leasehold premises	483	460
Total	**483**	**460**

Reconciliation of movements in other provisions ($'000)

	2022	2021
Opening balance	460	460
Re-measurements (a)	23	–
Total	**483**	**460**

(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.

Other provisions expected to be settled in ($'000)

	2022	2021
No more than 12 months	–	–
More than 12 months	483	460
Total	**483**	**460**

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)

	2022	2021
Net cost of services	**(13,157)**	(15,890)
Add revenue from Government	16,513	16,499
Adjustments for non-cash items:		
Depreciation and amortisation	574	574
Appropriations extinguished	(177)	(665)
Loss on disposal of assets	–	13
Change in receivables for capital budget items	361	146
Adjustments for changes in assets:		
(Increase) decrease in receivables	(3,927)	(1,185)
(Increase) decrease in supplier prepayments	75	(203)
Adjustments for changes in liabilities:		
Increase (decrease) in supplier payables	157	572
Increase (decrease) in salary and superannuation	35	24
Increase (decrease) in employee provisions	(221)	340
Net cash from operating activities	**233**	**225**

Note I: Appropriations

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

Annual appropriations ($'000)

	2022	2021
Annual appropriations:		
Outputs	16,513	16,499
Departmental capital budget (a)	368	366
Public Governance, Performance and Accountability Act 2013:		
Section 74 – retained receipts	181	134
Total available for payment	**17,062**	**16,999**
Appropriation applied (current and prior years)	(12,911)	(15,127)
Variance	**4,151**	**1,872**

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 the ABSF and the SFSF.

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)

	2022	2021
Acts repealed on 1 July 2021:		
Appropriation Act (No. 1) 2018-19	–	665
Appropriation Act (No. 3) 2018-19	–	–
Sub-total	**–**	**665**
Acts to be repealed on 1 July 2022:		
Supply Act (No. 1) 2019-20	150	6,002
Appropriation Act (No. 1) 2019-20	27	5,671
Sub-total	**177**	**11,673**
Acts to be repealed on or after 1 July 2023:		
Supply Act (No. 1) 2020-21	8,403	8,403
Appropriation Act (No. 1) 2020-21	7,181	8,596
Appropriation Act (No. 1) 2021-22	17,062	–
Sub-total	**32,646**	**16,999**
Total	**32,823**	**29,337**
Represented By:		
Cash at bank	100	100
Appropriations receivable	32,546	28,572
Appropriations extinguished – 1 July	177	665
Total	**32,823**	**29,337**

Note J: Budgetary report to outcome comparison

The Budget figures shown in the primary financial statements represent the original Budget released in May 2021. 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

Employee expenses were $1.0 million lower than forecast at Budget. The average staffing level for 2021-22 was 43 against a forecast of 50. This resulted in lower than anticipated staff costs.

Supplier expenses were $2.8 million lower than forecast at Budget. Supplier expenses include service provision for the management of the ABSF and the SFSF, including investment management, legal advice, trust management services and credit analysis. These costs are highly dependent on the level of investment activity. Favourable market conditions in 2021-22 led many originators to exit the SFSF and to seek alternative finance in funding markets. Likewise, originators otherwise eligible to receive support via the ABSF have found adequate access to funding from private investors.

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 2021-22 the AOFM adopted all applicable Australian Accounting Standards that became effective during the reporting period. These did not have a significant impact on the AOFM's accounts.

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 significantly 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 2022) 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. The parties have shared with each other their proposed categories of documents to be produced by the Commonwealth by way of discovery. Agreement was reached on the majority of the discovery categories and the Court delivered its judgement on the disputed categories in June 2022. Discovery processes were continuing as at the date of signing this report.

The timing for the conduct of the trial has not been set. The AOFM has not raised a contingent asset or contingent liability for this matter.

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 2022:

(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 2022 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 2022 and for the year then ended:

- Statement by the Chief Executive Officer and Chief 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.

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

Key audit matter	

Valuation of Australian Government Securities
 	
Refer to Administered Notes 1 'Financial Risk Management', 2 'Treasury Bonds', 3 'Treasury 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 ($848,450 million at 30 June 2022). 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 include the application of assumptions about the yield to maturity on securities, relative to market interest rates over an extended period.
	How the audit addressed the matter
	
	The audit procedures that I applied to address the matter included:
	
	• 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 2022, using the following procedures:
	
	    ○ agreeing the face values and coupon rates of treasury bonds, treasury indexed bonds and treasury notes to independent third party reports; and
	
	    ○ 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

Canberra

25 August 2022

PART 5: AIDS TO ACCESS

COMPLIANCE WITH ANNUAL REPORT REQUIREMENTS

PGPA Rule Reference	Part of Report	Description	Requirement
17AD(g)	**Letter of transmittal**		
17AI	Letter of transmittal	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 PGPA 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	Table of contents (print only).	Mandatory
17AJ(b)	Alphabetical index	Alphabetical index (print only).	Mandatory
17AJ(c)	Glossary	Glossary of abbreviations and acronyms.	Mandatory
17AJ(d)	Compliance with annual report requirements	List of requirements.	Mandatory
17AJ(e)	About this report	Details of contact officer.	Mandatory
17AJ(f)	About this report	Entity's website address.	Mandatory
17AJ(g)	About this report	Electronic address of report.	Mandatory
17AD(a)	**Review by accountable authority**		
17AD(a)	Chief Executive Officer's review	A review by the accountable authority of the entity.	Mandatory

PGPA Rule Reference	Part of Report	Description	Requirement
17AD(b)	**Overview of the entity**		
17AE(1)(a)(i)	Roles and activities	A description of the role and functions of the entity.	Mandatory
17AE(1)(a)(ii)	Organisation structure	A description of the organisational structure of the entity.	Mandatory
17AE(1)(a)(iii)	The AOFM outcome	A description of the outcomes and programmes administered by the entity.	Mandatory
17AE(1)(a)(iv)	Our purposes	A description of the purposes of the entity as included in corporate plan.	Mandatory
17AE(1)(aa)(i)	Statement of preparation	Name of the accountable authority or each member of the accountable authority	Mandatory
17AE(1)(aa)(ii)	Statement of preparation	Position title of the accountable authority or each member of the accountable authority	Mandatory
17AE(1)(aa)(iii)	Statement of preparation	Period as the accountable authority or member of the accountable authority within the reporting period	Mandatory
17AE(1)(b)	Not applicable	An outline of the structure of the portfolio of the entity.	Portfolio departments — Mandatory
17AE(2)	Not applicable	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	Approach to assess performance	Annual performance statement in accordance with paragraph 39(1)(b) of the PGPA Act and section 16F of the PGPA Rule.	Mandatory

PGPA Rule Reference	Part of Report	Description	Requirement
17AD(c)(ii)	***Report on Financial Performance***		
17AF(1)(a)	Performance assessment by purpose	A discussion and analysis of the entity's financial performance.	Mandatory
17AF(1)(b)	Financial performance	A table summarising the total resources and total payments of the entity.	Mandatory
17AF(2)	Financial performance	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)	Corporate governance	Information on compliance with section 10 (fraud systems)	Mandatory
17AG(2)(b)(i)	Letter of transmittal	A certification by accountable authority that fraud risk assessments and fraud control plans have been prepared.	Mandatory
17AG(2)(b)(ii)	Letter of transmittal	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)	Letter of transmittal	A certification by accountable authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity.	Mandatory

PGPA Rule Reference	Part of Report	Description	Requirement
17AG(2)(c)	Corporate governance	An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance.	Mandatory
17AG(2)(d) – (e)	Not applicable	A statement of significant issues reported to Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with Finance law and action taken to remedy non-compliance.	Mandatory
	Audit Committee		
17AG(2A)(a)	Committees	A direct electronic address of the charter determining the functions of the entity's audit committee.	Mandatory
17AG(2A)(b)	Committees	The name of each member of the entity's audit committee.	Mandatory
17AG(2A)(c)	Committees	The qualifications, knowledge, skills or experience of each member of the entity's audit committee.	Mandatory
17AG(2A)(d)	Committees	Information about the attendance of each member of the entity's audit committee at committee meetings.	Mandatory
17AG(2A)(e)	Committees	The remuneration of each member of the entity's audit committee.	Mandatory
	External Scrutiny		
17AG(3)	External scrutiny	Information on the most significant developments in external scrutiny and the entity's response to the scrutiny.	Mandatory
17AG(3)(a)	Not applicable	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)	Not applicable	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)	Not applicable	Information on any capability reviews on the entity that were released during the period.	If applicable, Mandatory
	Management of Human Resources		
17AG(4)(a)	Our people	An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives.	Mandatory
17AG(4)(aa)	Our people	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; and (d) statistics on staff location.	Mandatory
17AG(4)(b)	Our people	Statistics on the entity's APS employees on an ongoing and non-ongoing basis; including the following: (a) statistics on staffing classification level; (b) statistics on full-time employees; (c) statistics on part-time employees; (d) statistics on gender; (e) statistics on staff location; and (f) statistics on employees who identify as Indigenous.	Mandatory
17AG(4)(c)	Our people	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

PGPA Rule Reference	Part of Report	Description	Requirement
17AG(4)(c)(i)	Our people	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)	Our people	The salary ranges available for APS employees by classification level.	Mandatory
17AG(4)(c)(iii)	Our people	A description of non-salary benefits provided to employees.	Mandatory
17AG(4)(d)(i)	Our people	Information on the number of employees at each classification level who received performance pay.	Mandatory
17AG(4)(d)(ii)	Our people	Information on aggregate amounts of performance pay at each classification level.	Mandatory
17AG(4)(d)(iii)	Our people	Information on the average amount of performance payment, and range of such payments, at each classification level.	Mandatory
17AG(4)(d)(iv)	Our people	Information on aggregate amount of performance payments.	Mandatory
	Assets Management		
17AG(5)	Not applicable	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)	Purchasing and procurement	An assessment of entity performance against the *Commonwealth Procurement Rules*.	Mandatory

PGPA Rule Reference	Part of Report	Description	Requirement
	Reportable consultancy contracts		
17AG(7)(a)	Purchasing and procurement	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)	Purchasing and procurement	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)	Purchasing and procurement	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)	Purchasing and procurement	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)	Purchasing and procurement	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)	Purchasing and procurement	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	Purchasing and procurement	Additional information, in accordance with section 17AGA, about organisations receiving amounts under reportable consultancy contracts or reportable non-consultancy contracts.	If applicable, Mandatory
	Australian National Audit Office Access Clauses		
17AG(8)	Purchasing and procurement	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

PGPA Rule Reference	Part of Report	Description	Requirement
	Exempt contracts		
17AG(9)	Purchasing and procurement	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
	Small business		
17AG(10)(a)	Purchasing and procurement	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)	Purchasing and procurement	An outline of the ways in which the procurement practices of the entity support small and medium enterprises.	Mandatory
17AG(10)(c)	Purchasing and procurement	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)	Annual financial statements	Inclusion of the annual financial statements in accordance with subsection 43(4) of the PGPA Act.	Mandatory
	Executive Remuneration		

PGPA Rule Reference	Part of Report	Description	Requirement
17AD(da)	Remuneration of key management personnel and highly paid staff	Information about executive remuneration in accordance with Subdivision C of Division 3A of Part 2-3 of the Rule.	Mandatory
17AD(f)	**Other Mandatory Information**		
17AH(1)(a)(i)	Advertising campaigns	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)	Advertising campaigns	If the entity did not conduct advertising campaigns, a statement to that effect.	If applicable, Mandatory
17AH(1)(b)	Grants	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)	Disability reporting mechanism	Outline of mechanisms of disability reporting, including reference to website for further information.	Mandatory
17AH(1)(d)	Freedom of information	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)	Not applicable	Correction of material errors in previous annual report	If applicable, Mandatory
17AH(2)	Not applicable	Information required by other legislation	If applicable, Mandatory

ALPHABETICAL INDEX

B

C

D

R

S

T

W

GLOSSARY OF ABBREVIATIONS

ABE	Australian Business Economists
ABS	Asset-Backed Securities
ABSF	Australian Business Securitisation Fund
AGS	Australian Government Securities
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
APSC	Australian Public Service Commission
ASF	Australian Securitisation Forum
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
BBSW	Bank Bill Swap Rate
BDS	Business and Data Systems
CEO	Chief Executive Officer
CIS Act	*Commonwealth Inscribed Stock Act 1911*
CMA	Cash Management Account
CMBS	Commercial Mortgage-Backed Securities
CMP	Cash Management Portfolio
COO/CFO	Chief Operating and Finance Officer
CPI	Consumer Price Index

CPRs	Commonwealth Procurement Rules
CRAO	Chief Risk and Assurance Officer
DRRTA	Debt Retirement Reserve Trust Account
ECL	Expected Credit Losses
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
fSPV	Forbearance Special Purpose Vehicle
FA Act	*Financial Agreement Act 1994*
FOI Act	*Freedom of Information Act 1982*
FTE	Full-time equivalent
GFC	Global Financial Crisis
GST	Goods and Services Tax
KMP	Key Management Personnel
IPS	Information Publication Scheme
LTDP	Long-Term Debt Portfolio
MYEFO	Mid-Year Economic and Fiscal Outlook
OECD	Organisation for Economic Cooperation and Development
PBS	Portfolio Budget Statement
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PS Act	*Publice Service Act 1999*
RBA	Reserve Bank of Australia

RMBS	Residential Mortgage-Backed Securities
SFS Act	*Structured Finance Support (Coronavirus Economic Response Package) Act 2020*
SFSF	Structured Finance Support Fund
SMEs	Small and Medium Enterprises
TIBs	Treasury Indexed Bonds
T-Notes	Treasury Notes
WAM	Weighted Average Maturity
WHS Act	*Work Health and Safety Act 2011*