

**AUSTRALIAN
OFFICE OF
FINANCIAL
MANAGEMENT**

***CORPORATE
PLAN***

2021-22

INTRODUCTION

This plan, prepared in accordance with paragraph 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), highlights the AOFM's core objectives and main activities for the year ahead. It is also the product of having considered emerging challenges and issues to be monitored and/or addressed over the 2021-2025 reporting periods.

The AOFM annual corporate planning process involves: (1) developing and reviewing strategies for the year in prospect; (2) reviewing the relevance of performance indicators; and (3) assessing risks and opportunities. The plan guides the development of corporate projects and annual Business Group plans, both of which help to set the context for individual performance expectations.

Early in 2021 global financial markets experienced volatility as investors re-assessed the outlook for economic growth and the possibility of a sharp increase in general price inflation. The Australian Government Budget, while having strengthened noticeably since last year, continues to require the support of financing (issuance) tasks that are high by historic standards. The combination of these factors indicates another year ahead in which the AOFM's operations will remain more complex than has been the case in the past. Liquidity risk, given the scale of issuance and the potential for market volatility and stress, will also require close attention throughout the year. Market stress related calls on the Structured Finance Support Fund to maintain capital flow to the small and medium enterprise (SME) lending sector have largely abated due to economic and market recovery; however, the possibility of further market disruption cannot be ruled out at this stage.

Organisational performance against the Corporate Plan will be monitored using key performance indicators.

Rob Nicholl

Chief Executive Officer

VISION

Acknowledged for excellence in sovereign financial management.

PURPOSE (MISSION)

To fully meet the government's debt financing and cash needs, and achieve its policy objectives to support the domestic lending market.

OBJECTIVES (DELIVERY)

1. Meet the Budget financing task while managing the trade-offs between cost and risks for the cash and debt portfolios over the medium-long term.
2. Enable the government to always meet its cash outlay requirements.
3. Operate in the Australian Government Securities (AGS) market in a manner consistent with being a credible custodian.
4. Manage the Australian Business Securitisation Fund (ABSF) and Structured Finance Support Fund (SFSF).

ROLE

The key functions underpinning AOFM's role are:

- issuing AGS to meet the government's financing task and in accordance with government policy objectives (such as facilitating sovereign bond market liquidity);
- managing the cash portfolio in aggregate (cash and asset balances);
- the settlement and payment of government financial obligations on AGS;
- maintaining a capacity to provide specialist advice within government on debt financing (including related financial market matters) and balance sheet management;
- to undertake cost effective management of the debt and asset portfolios;
- where appropriate, supporting the efficient operation of the Australian financial system;
- supporting implementation of the ABSF and SFSF in accordance with Government policy; and
- managing the ABSF and SFSF investment portfolios consistent with related policy objectives.

GUIDING PRINCIPLES (AOFM VALUES)

The AOFM, as the interface between government and financial markets necessarily exercises considerable judgement. This requires balancing the pursuit of government objectives and community outcomes with an understanding of the incentives that drive financial market participants. In this regard, it is important that the AOFM is seen in its day-to-day dealings to be:

- **of the highest integrity** – we consistently act in a professional, respectful, transparent and impartial manner that will withstand scrutiny;
- **balanced and forthright** - our advice is objective, candid and based on the best judgement we can make;
- **results focussed** – we demonstrate a thorough understanding of our responsibilities and take pride in our work, owning the decisions we make;
- **responsive** – we consult carefully and demonstrate initiative and the ability to adapt to changing circumstances; and
- **clear** – we communicate in a straightforward and timely manner.

GOVERNANCE

As a listed entity under the PGPA Rule, the AOFM is a non-corporate Commonwealth entity, subject to the PGPA Act. The AOFM is governed by a CEO who is responsible for the day-to-day management and performance of the AOFM. The CEO is accountable to the Treasurer and the Secretary to the Treasury for Commonwealth debt and cash portfolio management, and policy implementation assigned to AOFM.

The Treasurer is responsible for determining the Commonwealth debt management mandate and has the power to authorise the investment of public funds. As the head of the Department of State, the Secretary to the Treasury is responsible for borrowing money on the public credit of the Commonwealth and for administering legislation associated with AOFM responsibilities. As such, the Secretary to the Treasury is accountable for implementation of the debt management mandate and advising the Treasurer on debt management policy, and draws on the resources of AOFM and the Treasury for this purpose. For the purposes of operational efficiency, the AOFM CEO is delegated powers and authorisations by the Treasurer for debt management activities.

The AOFM is committed to sound governance principles and robust management practices in pursuing the achievement of its purpose and objectives. The Executive Group supports the CEO in managing the performance of the agency.

The Audit Committee reviews financial and performance reporting, risk oversight and management, and internal controls. Members of the Audit Committee are not officials of AOFM. Assurance activities support the Audit Committee in monitoring the effectiveness of the internal control environment. The Audit Committee operates as an independent advisory function to the CEO.

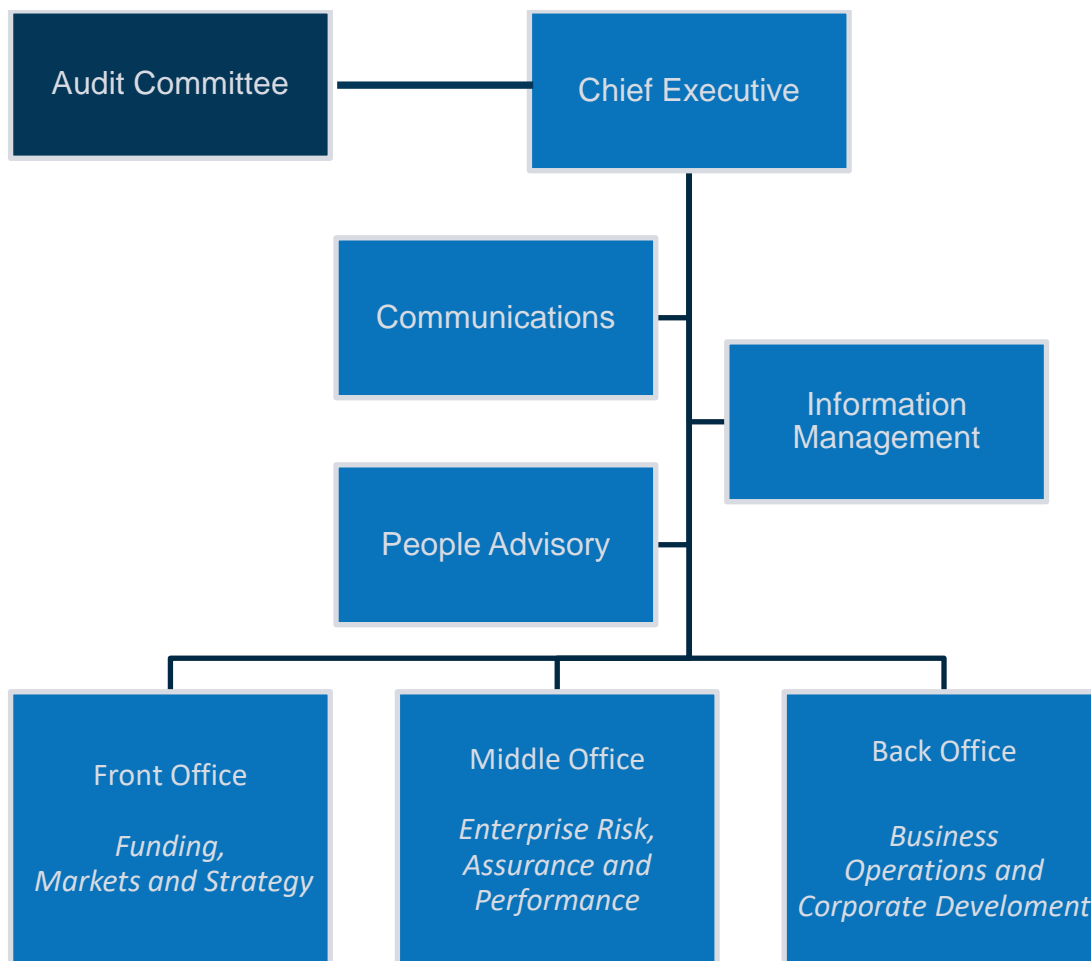
ORGANISATIONAL STRUCTURE

AOFM is organised with an overall structure providing segregation of transaction-related duties that is based on the principles of financial industry best practice. Governance arrangements control and monitor operational aspects of AOFM activities to ensure high levels of integrity and effectiveness across its business outcomes.

The AOFM Front Office comprises the core operational activities of strategy, markets, and funding. This involves portfolio and global market research (including monitoring and anticipating regulatory impacts on financial markets), investor engagement, market-related advisory services, conduct of investment programs (ABSF, SF5F), and issuance. The Front Office liaises with Treasury, the RBA, intermediaries, and investors. It also monitors global financial markets to judge how execution of AOFM's financing and portfolio management responsibilities can be best achieved.

The Middle Office comprises enterprise risk, assurance, performance, data, and business systems management and strategy. Associated activities support risk and compliance monitoring and facilitate risk management (including by way of separation of the back and front office functions). The Middle Office also administers controls in various business critical systems. It maintains business databases that support monitoring of and reporting on AOFM business activities. It also manages broader IT issues through the shared services relationship with the Treasury, while maintaining an awareness of developing new opportunities in the availability of out-sourced IT services.

The AOFM Back Office comprises accounting services, settlements, administrative support, and workplace support for the CEO. Business operations provide accounting services, transaction settlements and procurement, and parliamentary liaison support. Administrative functions and support to the Chief Executive sit within a Corporate Development business unit. Communications, information management, and people advice are served by relevant senior staff.



KEY ACTIVITIES

AOFM objectives are guided by the following: 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 Government¹.

The annual focus for debt issuance in each of the reporting years is on meeting government funding requirements while managing the trade-offs between cost and risks

¹ For more information, see Outcome 1 for the AOFM as published in the *Treasury Portfolio Budget Statements 2021-22*.

associated with the cash and debt portfolios. To be successful in its roles as portfolio manager and issuer, the AOFM plans AGS issuance according to an annual debt management strategy that is approved by the Secretary to the Treasury. This will include reference to how the AOFM plans to manage the cash portfolio over the medium to long-term and what this implies for issuance in the year ahead. A key focus will be on liquidity risk, particularly during times when the risk of extreme volatility in funding markets is heightened. To this end, the AOFM maintains sufficient issuance and cash management flexibility to be able to respond at relatively short notice to changes in its operating environment.

The AOFM monitors external factors, such as market conditions, through various means, including by liaising with a comprehensive and extensive network of domestic and offshore market contacts.

The AOFM is administering two investment programs on behalf of government: the ABSF and SFSF. Both have had an appreciable impact in terms of AOFM resourcing and business process.

Australian Business Securitisation Fund

The ABSF is a \$2 billion investment fund established in April 2019. The policy aims to enhance access to finance for SMEs through targeted investments in the securitisation market. Investments from the ABSF will allow for smaller lenders to compete more effectively against the major banks, and to fill niche gaps in the lending market that are otherwise underserved in Australia.

Structured Finance Support Fund

As part of the *Coronavirus Economic Response Package Omnibus Bill 2020* the Government established the SFSF. It provides for up to \$15 billion to ensure continued access to funding markets by SME lenders impacted by the economic effects of the COVID-19 pandemic. In particular, the policy aim is to compensate for where smaller lenders lose access to funding from markets during the period of pandemic disruption. This is achieved through targeted government investments in structured finance markets.

OPERATING CONTEXT

External environment

The AOFM's portfolio management strategy, investments and issuance activities take into consideration the outlook for global economic performance and funding markets.

The global macroeconomic outlook remains highly uncertain, with renewed waves of the pandemic still occurring and the extent to which economies are recovering from the outsized contraction experienced over 2020 being highly variable. This will create the potential for volatility between the performance of different sectors of global financial markets, and while the AGS market tends to track changes to the US Treasury market relatively closely, there are many factors that could disrupt that pattern at times. In addition, the recovery rate within economies remains uneven with many industries in the services sector still operating well below pre-pandemic levels. This has created a situation in which the outlook for inflation is difficult to forecast and the potential for a sustained outbreak of inflation has been dominating financial market speculation, which is likely to continue for some time.

Economic growth, including for Australia, is generally expected to occur on the prospects of the broadening rollout of vaccines, a progressive relaxation of containment measures and continued policy support. Nonetheless, risks to the recovery persist in relation to the speed of vaccine production and deployment, especially with the potential for new viral mutations. This remains a dominant downside risk and recent evidence of this in both Sydney and Melbourne highlight the ongoing nature of this risk.

Long-term interest rates in developed economies have increased from the lows of 2020. Given the current easy monetary policy conditions the surge in yields has steepened global yield curves, with Australia remaining the steepest amongst a group of developed peer countries. This has created conditions in which the economics of issuing short-term debt have become more attractive.

AGS issuance will be undertaken in a market dominated by central bank activity with the potential for ongoing volatility. The RBA's actions to date (especially the implementation of the 3-year yield target) have heavily influenced investor behaviour. Investors will maintain a strong focus on monetary policy settings as they develop. There is significant potential for volatility in financial markets when monetary policy support is withdrawn. The RBA's bond purchasing program and the improvement in the government's fiscal position compared to 2020-21 will combine to reduce the volume of AGS issuance to be absorbed by end-investors.

Improvements in the economic backdrop and in funding markets have reduced the need for the AOFM's Structured Finance Support Fund (SFSF) to support primary and secondary

securitisation markets. Investments in the Australian Business Securitisation Fund (ABSF), which is designed to support the development of funding for lenders to small and medium enterprises, were deferred for some time due to the pandemic but have recommenced as markets begin to normalise.

Capability

Workforce capability

The AOFM is a specialised agency focused on sovereign financial and debt management. From time to time, it has also been required to design and implement programs that deliver government objectives to support the functioning of different parts of the Australian financial market (the ABSF and SFSF being current examples). Financial market concepts affect all roles in AOFM to varying degrees and factor heavily into AOFM's success.

Core AOFM operations require regular and detailed interface with financial markets. AOFM officials maintain broad market and economic knowledge and tap information networks relevant to global financial markets as part of the monitoring process. AOFM staff are also required to be well-versed in related risk identification and management.

AOFM retains in-house financial market skills and experience to advise other agencies (in particular, Treasury) on costs and risks to the government's balance sheet. The *Workforce Plan 2019-2023* aims to support a high performing culture through: (1) recruiting staff with high quality potential; (2) honing available technical skills; (3) enhancing internal industry and policy-related experiences; and (4) fostering deep and broad thinking appropriate to understanding the AOFM's challenges.

AOFM aims to retain high performing staff while creating a reputation as a destination of choice for high potential recruits (especially at the graduate level). While limited in its ability to provide end-to-end career pathways, its focus on meaningful development opportunities for its people has consistently proven to be a sound investment by the agency.

Information Technology (IT) capability

The AOFM currently relies on a shared services agreement with Treasury for its IT capability. This provides access to a depth of technical support with economies of scale that the AOFM could not replicate in-house. The AOFM leverages the Treasury IT platform by ensuring its business-specific applications are maintained on that platform. An

ongoing challenge has been to scope an independent IT capability to reflect where AOFM business requirements and operational risks differ materially from those of Treasury².

IT-related opportunities and risks are evolving quickly for smaller agencies. Cloud-based platforms for deploying Infrastructure as a Service (IaaS), Platform as a Service (PaaS) and Software as a Service (SaaS) are providing flexible and scalable IT solutions for evolving business requirements. Fully fledged managed services are also being developed. What is relatively new is that these solutions are being raised to IT security levels consistent with a protected network level. Government policy is clearly directed towards these cloud first strategies. The real challenge for small agencies, like the AOFM, lies in accessing the IT skills for managing this IT capability and/or finding suitable managed services.

The AOFM Information Technology Steering Committee (ITSC) is investigating cloud-based platforms to see if they offer a viable alternative for an appropriately specified independent IT capability. Over the next several years, the AOFM will further develop its understanding of what will be required to commence implementing an independent IT capability.

Risk oversight and management

The AOFM understands the importance of embedding a positive risk-aware culture that promotes proactive risk management and informed decision making. AOFM's risk-aware culture is supported by an enterprise risk management (ERM) framework, financial risk management policies and an independently chaired Audit Committee. These governance arrangements underpin oversight of risk management and internal controls.

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

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

² Subtle differences in IT requirements arise from the focus on policy delivery for Treasury compared with the operational and transaction execution focus of AOFM in financial markets.

The AOFM maintains risk management policies tailored to its debt and asset portfolios. The Financial Risk Management Policy focuses on debt portfolio and liquidity management risks. It includes related strategies and relevant limits. The AOFM also maintains investment policies for its securitisation funds; these are aligned with overarching legislation and directions.

The AOFM is committed to maintaining a positive risk-aware culture where risk is viewed as a necessary enabler of business. Risk culture is monitored through periodic internal audit reviews and whole-of-government surveys (such as Comcover Benchmarking and the State of the Service).

Key risk profile

The key areas of risk to achievement of the AOFM’s purpose and objectives arise from uncertainty of external factors, or the implementation of major business initiatives. Table 2 outlines key risks (both upside and downside) and planned management actions.

Table 2: Key risk profile

Management Actions	
Strategic risks	
Failure to anticipate, recognise or respond to emerging market trends or evolving technology trends.	<ul style="list-style-type: none"> • Maintaining a robust financial risk management policy to build and guide operational resilience. • Conducting regular environmental scans and simulations to support portfolio management. • Maintaining an ongoing dialogue with market participants and Treasury regarding market conditions, demand for AGS, and industry reforms.
The market loses confidence in the AOFM’s ability to meet its business objectives.	<ul style="list-style-type: none"> • Maintaining an Investor Relations Strategy to meet investor engagement needs. • Conducting regular industry engagement in support of AOFM’s custodianship of the AGS and securitisation markets. • Maintaining consistency in announcements and actions to support integrity and transparency in

	communications with the AGS and securitisation markets.
Failure to meet AOFM's business requirements through the memorandum of understanding (MOU) purchaser-provider relationship.	<ul style="list-style-type: none"> • Maintaining regular dialogue with Treasury to raise awareness of the importance of service provision to our operational outcomes. • IT Steering Committee monitors issues with service levels and considers opportunities to improve operational outcomes.
Portfolio risks	
Failure to settle tenders or to make interest or maturity payments.	<ul style="list-style-type: none"> • Developing and maintaining strong stakeholder relationships and sound business procedures, systems controls and contractual arrangements. • Maintaining mature business continuity (BC) plans and procedures and conducting regular testing. • Ensuring third party BC and disaster recovery arrangements are in place.
Inaccurate forecasts leading to substantially different cash balance than planned.	<ul style="list-style-type: none"> • Maintaining strong relationships with key spending and revenue collection agencies. • Daily cross-checking of cash flow forecasts with the Reserve Bank of Australia (RBA). • Maintaining a financial risk management policy which specifies treatments to meet unforeseen cash shortfalls.

Management Actions	
Portfolio risks (cont.)	
<p>AOFM is unable to meet government financing requirements.</p>	<ul style="list-style-type: none"> • Maintaining a precautionary asset balance (liquidity buffer) adjusted as required to account for changes to risk assessments. • Maintaining close engagement with Treasury and the RBA to inform our assessment of funding conditions. • Maintaining operational flexibility in issuance choices to manage short-term unexpected shocks affecting the bond market. • Maintaining access to an overdraft facility with the RBA.
Operational risks	
<p>The AOFM's IT infrastructure fails to meet business requirements or service levels, impacting the AOFM's ability to effectively perform its core activities.</p>	<ul style="list-style-type: none"> • Holding regular contract management meetings to ensure adequate monitoring of IT services and forewarning of change control impacts. • Maintaining multiple levels of redundancy through remote access to industry systems and supplier stand-in arrangements. • Researching alternate business models for IT service provision.
<p>IT resources and/or other resources are not available or do not function as intended, causing disruption to time-critical business functions.</p>	<ul style="list-style-type: none"> • Regularly testing BC arrangements, including live scenarios and third-party testing. • Implementing IT security measures to manage potential cyber threats. • Maintaining staff awareness regarding emerging vulnerabilities and defences to enhance preparedness.

The AOFM discloses market, commercially and/or politically sensitive information to external parties which could impact market prices, the Government's reputation, or commercial business arrangements.

- Providing regular staff training on the principles set out in the *Protective Security Policy Framework* for handling of confidential information.
- Requiring staff to annually attest to their adherence to the *Australian Public Service Code of Conduct* and the *Australian Financial Markets Association Code of Conduct*.
- Maintaining a recorded telephone lines policy to protect the interests of the AOFM.

Cooperation

The AOFM relies on within government and external relationships for gathering and disseminating information and for cooperation in achieving its objectives.

To better understand the global financial market environment, the AOFM maintains an active dialogue with market participants, including domestic and offshore investors, intermediaries, the RBA, and other sovereign debt issuers. The AOFM maintains close ties to the Treasury to understand the potential for changes in the financing task.

In managing the cash portfolio, the AOFM needs to receive timely forecasts on government outlays and tax receipts. Accordingly, it maintains close and frequent communication with spending agencies, the Department of Finance, the RBA, and the Australian Taxation Office.

The AOFM maintains strong, productive relationships with intermediaries, investors, and the Australian Securitisation Forum to support its judgements regarding the ABSF and SFSF investment programs.

PERFORMANCE

The AOFM recognises it has limited short to medium-term influence over key drivers of the cost of the debt portfolio, such as the amount of debt outstanding and the level of market yields. However, it can influence the cost of the debt portfolio over time through the choice of instruments and maturities it issues, for which cost is not the only consideration (for example, market risks are another variable to consider). There are also

intangible (cost and risk) benefits realised over time from market confidence in the AOFM as an issuer. This is because investors form views of, and are influenced by, issuer reputation delivered in large part through consistency and transparency in its interaction with the market via its issuance and communications.

Judgments that balance considerations between cost and risk are required but an overriding aim is to ensure government financing requirements are met in full and on time. Underpinning this are considerations about maintaining access to funding markets through a wide range of circumstances. Maintaining business processes that reflect minimal appetite for failure in any critical function (such as successful execution and settlement of bond tenders and syndications) are also important decision factors.

For 2020-21 the AOFM chose to use indicators to cover the following key considerations: one is the cost effectiveness of its choices with respect to portfolio management and issuance; another reflects its capacity to maintain market access to finance when required; a third can be used to indicate how the AOFM influences its reputation in funding markets; and a further four indicators of performance for implementation of the ABSF and SFSF programs, encompassing the broader benefits of each program and in particular assessments of the extent to which: AOFM has achieved the ABSF Investment Mandate aim over the medium-term; the SME securitised lending market has developed, as per the ABSF investment mandate; risk assessed and timely assistance has been available to smaller lenders through warehouse funding; and the SFSF has been able to crowd-in private sector capital in support of continued functioning of the securitisation market.

From 2021-22 the AOFM performance indicators will not include any indicators for the SFSF program. This is because the financial market deterioration that gave rise to the need for this program has abated to the point where the need for new investment activity has all but completely receded. In the event this situation changes materially, consideration will be given to the reintroduction of formal performance indicators. Also, the ABSF program is now at a point where the AOFM's influence over industry adoption of a loan data template has been fully exercised; therefore, only one ABSF indicator remains relevant.

The AOFM Annual Performance Statement will consider failure to meet targets as a reflection of broader market changes, or because of decisions taken by the AOFM during the year. The Government's financing task is only determined at the Budget (and updated at MYEFO) each year, and global financial market conditions are inherently uncertain and at the very least remain subject to volatility. However, the operating context contemplates a range of scenarios that could impact the issuance task beyond 2021-22.

The performance measures in Table 3 will remain applicable for 2021-22 and the outlook period (2022-23 to 2024-25), subject to annual review.

Table 3: Key performance indicators

KEY PERFORMANCE INDICATOR	MEASURE	TARGET 2021-22 and beyond
Meet the Budget financing task while managing the trade-offs between cost and risks for the cash and debt portfolios over the medium-long term		
Term issuance	Shortfall in volume (\$) between actual Treasury Bond issuance and planned issuance announced at the Budget and subsequent releases.	Zero
Financing cost (portfolio)	The cost of the long-term debt portfolio compared to the 10-year average of the 10-year bond rate.	Lower
Financing cost (issuance)	The cost of Treasury Bond issuance over the past 12 months compared to the average 10-year bond rate over the same period.	Lower
Tender issuance yields	Weighted average issue yield at Treasury Bond and Treasury Indexed Bond tenders compared to prevailing mid-market secondary yields.	Issuance yields at or below the market rate
Enable the government to meet its cash outlay requirements at all times		
Use of the overdraft facility	Number of instances the RBA overdraft facility was utilised.	Zero
Be a credible custodian of the AGS market		
A liquid and efficient secondary market	Annual turnover in the secondary market for Treasury Bonds and Treasury Indexed Bonds.	Greater than previous year
Market commitments	Number of times the AOFM failed to take actions consistent with public announcements.	Zero

KEY PERFORMANCE INDICATOR	MEASURE	TARGET
Efficiently and effectively implement the ABSF and SFSF programs		
ABSF rate of return	Accrual earnings (net of losses) divided by average drawn (invested) amount.	Greater than or equal to the investment mandate benchmark (Bloomberg AusBond Treasury 0-1 year index).

FOCUS FOR THE YEAR AHEAD

For the year ahead, the AOFM will again remain tightly focussed on the achievement of its core business activities. There is the potential for a ‘long tail’ of internal work associated with the private warehouse investment component of the SFSF.

Last year the AOFM was not able to initiate new projects due to the breadth and intensity of COVID-19 pandemic related work associated with the various fiscal responses within AOFM’s responsibility. This meant that some projects were either put on hold or slowed markedly (such as implementation of the workforce plan). Late in the year a few projects were reviewed, and work has commenced on a wholesale review of AOFM’s information (and records) management, and a pilot project to identify opportunities to source some business system access from cloud-based vendors has regained momentum.