



Australian Government
Australian Public Service
Commission

CAPABILITY REVIEW

Australian Office of Financial Management

*Effective leadership Diverse workforce **Capable organisations and workforce** Employee conditions APS Values*

Review Report: November 2015



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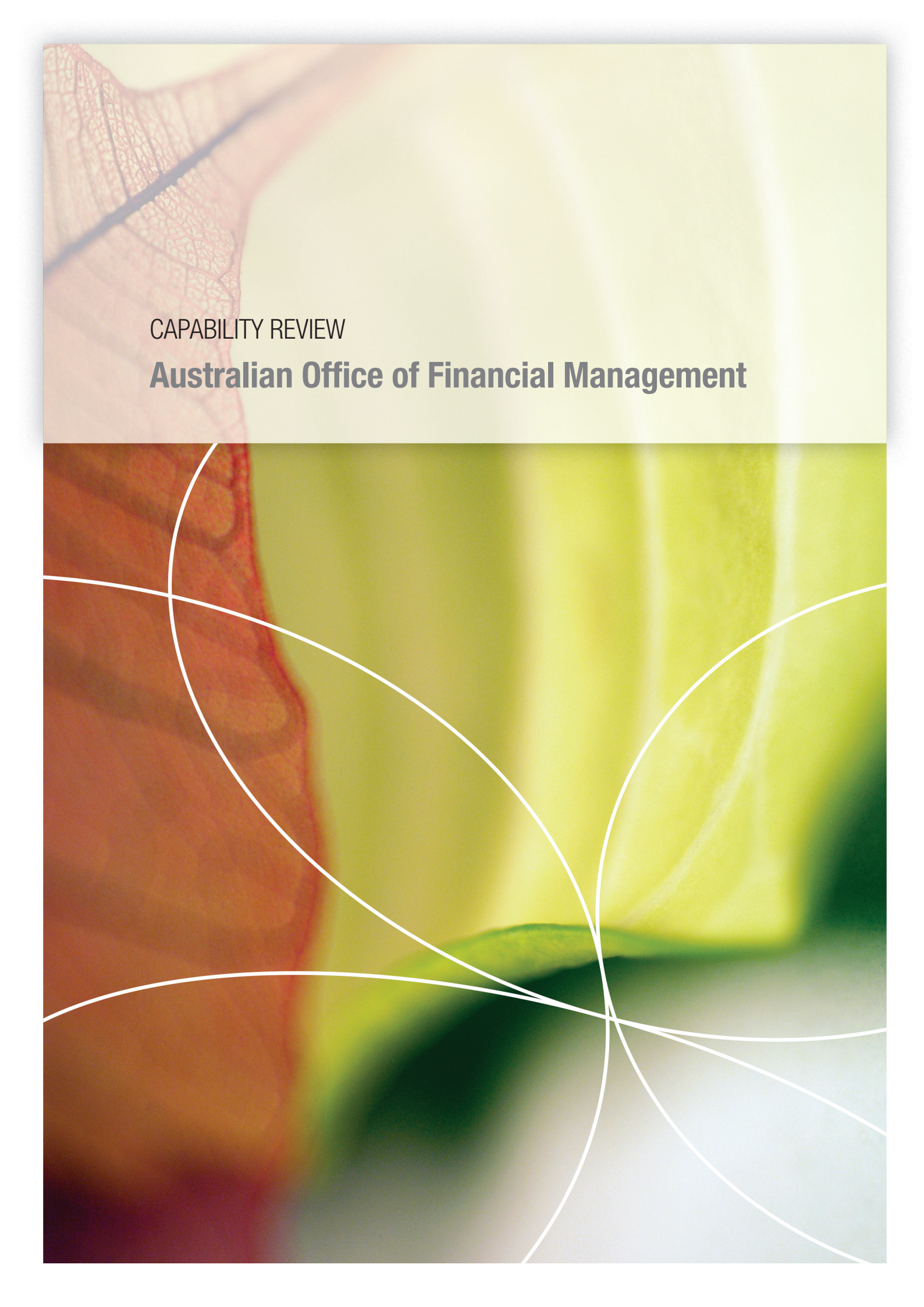
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CAPABILITY REVIEW

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the 1990s, the number of people in the world who are under 15 years of age has increased from 1.1 billion to 1.6 billion, and the number of people aged 65 and over has increased from 0.2 billion to 0.5 billion (United Nations, 2002). The number of people aged 65 and over is projected to increase to 1.1 billion by 2050 (United Nations, 2002).

There is a growing awareness of the need to address the needs of older people in the workplace. The World Health Organization (WHO) has identified the need for a 'new paradigm' in the management of older people in the workplace (WHO, 1999). The WHO has identified the need for a 'new paradigm' in the management of older people in the workplace (WHO, 1999).

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Foreword

The Australian Public Service Commission (APSC) has undertaken 25 capability reviews of Australian Public Service (APS) agencies. The reviews identify organisational strengths and areas for improvement and are designed to help lift the productivity of individual agencies and the APS as a whole.

I thank the members of the Australian Office of Financial Management (AOFM) for their professional and enthusiastic engagement at all stages of the review process. Staff who participated in interviews and workshops displayed great commitment for their work and provided valuable insights into the agency's capability.

I would also like to thank Dr Michael Vertigan AC, the chair of the review team, other senior members of the team, Ms Akiko Jackson and Ms Jennifer Rawson and the staff from the APSC who supported them.

A handwritten signature in black ink, appearing to read 'John Lloyd', with a long, sweeping horizontal stroke extending to the right.

John Lloyd PSM
Australian Public Service Commissioner



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1. About the review

A capability review is a forward-looking, organisational review that assesses an agency's ability to meet future objectives and challenges.

This review focuses on leadership, strategy and delivery capabilities in the AOFM. It highlights the agency's management strengths and improvement opportunities using the model set out in Figure 1. A set of 39 questions was used to guide the assessment of each of the 10 elements of the model covered by this review.

Capability reviews are designed to be relatively short and take a high-level view of the strategic operations of a department or agency. This review is primarily informed by consultation with senior leaders and external stakeholders. It also considers the views of staff who attended a series of workshops and round-table discussions. External stakeholders interviewed include other Australian Government departments, and State government agencies, domestic and international investors and comparable debt management organisations in other jurisdictions.

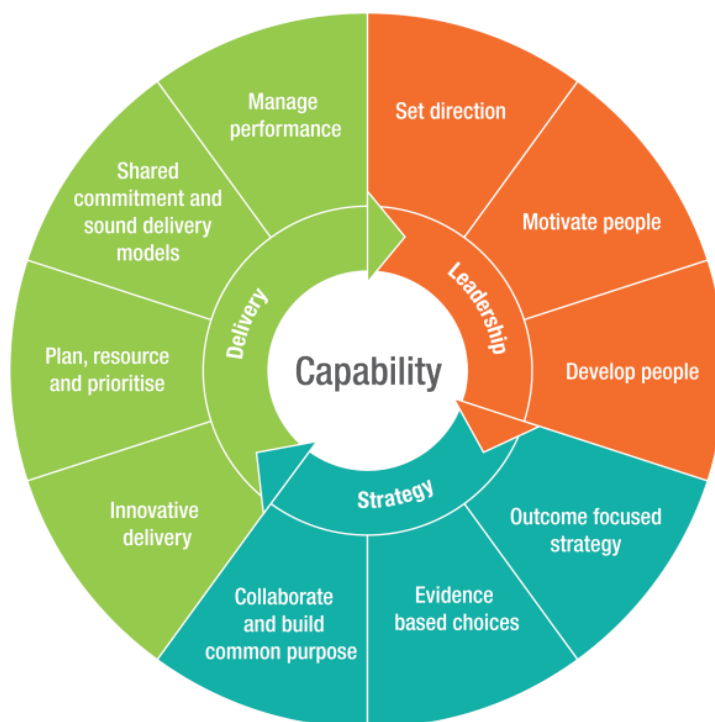


Figure 1—Model of capability

2. About the agency

The AOFM is responsible for the efficient management of the Australian Government's financing task and debt portfolio. Its operations influence the broader Australian financial market by providing pricing benchmarks for the financing of state governments and corporate sectors. More generally, the efficiency and resilience of the Australian Government Securities (AGS) market acts as an important signal to international investors on the maturity of the country's financial markets.

Separate to the assets the AOFM holds for cash management and debt defeasance, the agency has occasionally been directed to manage discrete or stand-alone investments. These have included managing assets set aside for purposes like the Communications Fund, created to fund regional telecommunications infrastructure, and the Australian Residential Mortgage-Backed Securities (RMBS) portfolio, established by the agency to support domestic mortgage competition at the height of the global financial crisis (GFC) and now being divested in accordance with government direction.

The AOFM was established in 1999 as a separate agency within the Treasury portfolio. The Secretary to the Treasury delegates powers under the *Public Service Act 1999* (Cwlth) to the Chief Executive Officer (CEO) so that the AOFM may fulfil its brief and operate daily in an autonomous capacity. The CEO is the accountable authority under the *Public Governance, Performance and Accountability Act 2013* (Cwlth) (PGPA Act).

The portfolio strategy for the AOFM is determined on the basis of government financing requirements as established through the Budget and confirmed annually by memorandum to the Treasurer setting out the proposed mix of nominal and indexed bonds for the year ahead. The detailed issuance of the securities is then the subject of an Annual Remit, discussed by the Advisory Board and determined by the Treasury Secretary.

This arrangement is comparable to that of other debt management offices around the world, although the scope of activities undertaken by individual offices varies, as do their structural and governing arrangements.

For much of its time before 2008, the AOFM managed the debt portfolio using derivatives, particularly interest rate and foreign exchange rate swaps, with a view to balancing cost and risk. Following a review in 2008 and as a consequence of the GFC, which led to a significant growth in issuance from around \$5 billion in 2007–08 to around \$87 billion in 2013–14, the AOFM was directed to cease using derivatives as a primary management tool. It has since managed the costs and risks of the portfolio through its issuance decisions, including the selection of bond maturities.

The AOFM has six business groups (Figure 2). This structure and associated roles and responsibilities consider the need for appropriate segregation of duties and reporting lines into front, middle and back office functions.¹

¹ The terminology of front, middle and back office is drawn from investment banking where, for the sake of probity, trading activities in the front office are separate from the controls and processing of transactions carried out in the middle office. The back office provides corporate services to the organisation but in some instances may also include the settlements function.

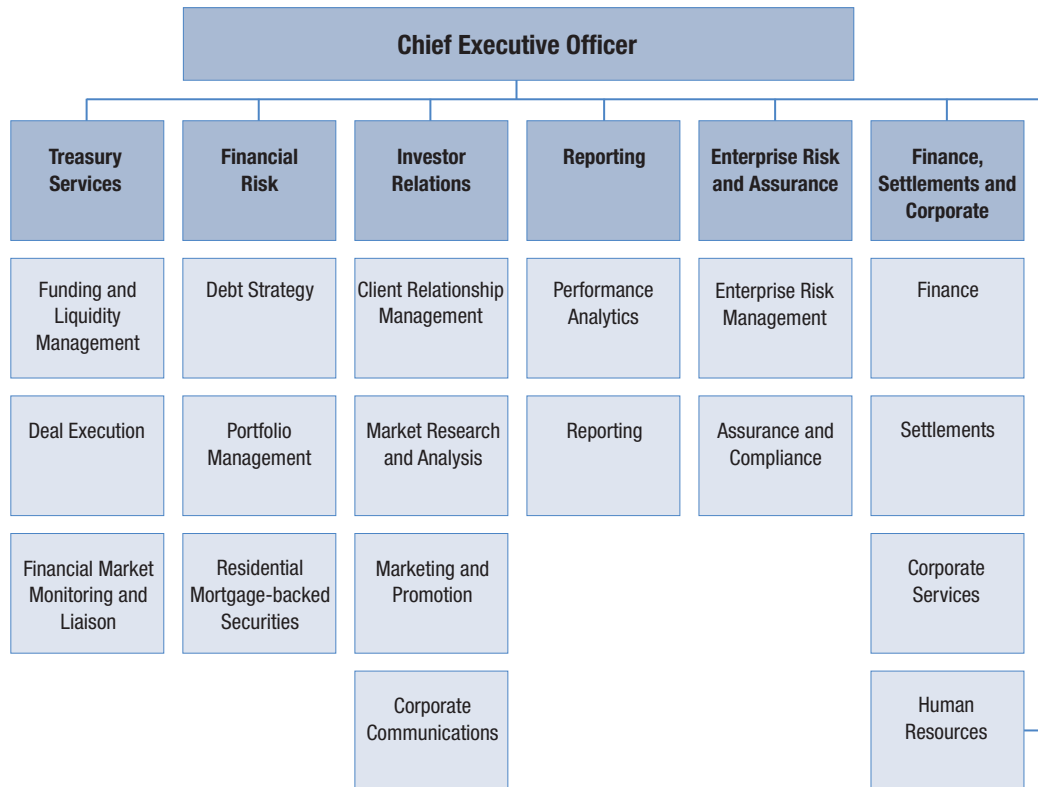


Figure 2: AOFM organisational structure (October 2015)

The AOFM needs to operate with a high level of independent, objective and transparent behaviour. It must demonstrate its values of integrity, impartiality, responsiveness and clarity in its day-to-day dealings.

AOFM staff require specialist skills in financial reporting, risk management, investment and debt management. As a consequence, their remuneration is higher than most staff across the APS at the same level. This has resulted in comparatively strong retention rates and limited internal career opportunities. Most of the Executive Group—comprising the CEO and heads of the six business groups—have been with the AOFM for many years.

All 41 staff are based in Canberra except for two on overseas deployments, one in Papua New Guinea and one in the Solomon Islands who are both transferring knowledge of and skills in debt and cash management to those countries. Recruits come from private and public sector backgrounds and are concentrated in the APS 5 to Executive Level (EL) 1 range. The average age of staff is comparatively low at 38.7 years and current average annual staff retention since the AOFM was created is 83 per cent. Sixty per cent of staff are male. One of the six business heads is female.

Key stakeholders include:

- financial market intermediaries such as domestic and investment banks
- AGS investors, both domestic and offshore, including fund managers, pension fund managers, insurers, sovereign wealth fund managers, hedge fund managers and those working in central banks

- the Treasury which provides policy direction and a range of corporate services such as information and communications technology (ICT) and payroll
- the Department of Finance with government cash management requirements
- the Reserve Bank of Australia (RBA) which works principally with AOFM in managing the cash portfolio
- contractors providing registry and treasury accounting systems; and, industry groups like the Australian Financial Markets Association and Australian Securitisation Forum
- The AOFM measures each of the agency's core objectives against the targets in Figure 3.

Meeting the budget financing task in a cost-effective manner subject to acceptable risk

- The financing task is met (difference in volume (\$) between actual issuance and planned issuance announced at the Budget and subsequent releases)
- Debt issuance is cost effective (compare cost of funds (total accrual interest costs as a percentage of the average stock of debt) with the cash rate and the average 10-year bond rate or other appropriate indicators) and
- Debt issuance is targeted to market demand and the capacity of the market to absorb issuance (difference between the yields at tender with yields in the secondary market)

Facilitating the Government's cash outlay requirements as and when they fall due

- Efficient cash management (number of business days usage of the overdraft facility)

Being a credible custodian of the AGS market and other portfolio responsibilities

- Secondary market for Treasury Bonds and Treasury Indexed Bonds is liquid and efficient (annual turnover in the secondary market of Treasury Bonds and Treasury Indexed Bonds as a proportion of the average volume of stock on issue; and monitor usage of AOFM securities lending facility)

Ensuring the AOFM is a well-managed organisation

- The AOFM financial management operations are efficient and cost effective (compare the AOFM's departmental and administrative costs to the debt stock issued and managed)
- The AOFM is a risk mature organisation (compare actual risk management capability with risk management capability targets)
- The AOFM meets its legislative requirements (number of reportable breaches of legislative requirements) and
- The AOFM is a financially strong organisation, operating within its financial constraints (difference between actual agency expenses and agency revenue; and difference between actual agency capital expenditure and the approved same in the original Budget to Parliament).

Figure 3: AOFM performance targets and measures 2015–16

The AOFM's 2014–15 agency budget appropriation was \$11.2 million. Approximately two-thirds of this is spent on staffing and the remainder on purchasing services and meeting administrative costs. The agency has regularly achieved a small surplus.



3. Summary assessment

The AOFM supports Australia's economic growth and stability through managing debt on behalf of the Australian Government.

In 2014–15, the debt issuance task sat at \$78 billion in gross terms. An important part of the portfolio strategy involves extending the yield curve through the issuance of longer maturities thereby reducing the Government's exposure to interest rate volatility and 'smoothing' the maturity profile of the outstanding stock of debt.

The AOFM's success is testament to an agency with many strengths and proven delivery capability.

A solid delivery capability

While small in number, the AOFM's staff is highly skilled with strong technical knowledge of the sovereign debt market. Moreover, through its systems the auction of securities and settlement of accounts are managed seamlessly and with integrity in the interests of supporting a confident and active AGS market.

Since 2009, the AOFM has managed a six-fold expansion in the issuance programme creating a deeper and broader AGS market, generating market confidence through its engagement with central banks, sovereign wealth funds, intermediaries and investor groups around the world. It has successfully developed and executed its portfolio strategy and deployed sound portfolio risk modelling capabilities.

When called upon, the agency has competently managed various investments established with specific policy objectives. Most notably, this includes the Government's investment programme in the Residential Mortgage-Backed Securities established in 2008 to support competition in domestic mortgage lending in the wake of the GFC.

Agency documentation describes AOFM's vision as one of "excellence" in sovereign debt management. Staff enjoy and are proud of their work.

A credible and respected agency

A large part of the AOFM's delivery success hinges on its reputation and credibility in the domestic and international government securities market.

The AOFM has built trustful and open relations with a range of investors (including central banks and sovereign wealth funds) and intermediaries who hold the agency in high regard. It is held in high regard by these external stakeholders.

External stakeholders believe the AOFM demonstrates a keen awareness of the government securities market. It has integrated quantitative and qualitative intelligence about market needs and is responsive to feedback from market participants. It also demonstrates strong risk and analytical capabilities when managing the Government's portfolio.

The AOFM is well regarded by its peers. It supports good debt management practices globally; sitting on the steering committee for the Organisation for Economic Co-operation and Development (OECD) Working Party on Debt Management.

Under the current CEO's leadership, the AOFM has adopted a national leadership role, working closely and coordinating its investor engagement efforts with state borrowing authorities. It has also greatly expanded efforts in building relations with domestic and



international investors. The CEO has sought to build a more collegiate and collaborative organisation, focusing on creating an effective Executive cohort. His leadership is admired and appreciated by staff and external stakeholders.

Along with these strengths and successes, there remain opportunities to sustain delivery capability and reputation into the future.

Proactive engagement within the Australian Government

As successful and well regarded as the AOFM is among its external partners and clients, the extent of its current capabilities are not so well understood within the Australian Government.

Current activities focus on managing the Government's debt and cash requirements. At times, the agency has managed assets in line with specific policy objectives like the Communications Fund and the RMBS Portfolio. The AOFM has questioned if the capacity demonstrated through effective execution of these requirements could lead to an expansion of regular activities beyond debt and cash management. This subject is commonly discussed by equivalent debt management offices around the world.

Any extension of the AOFM's financial management role is a decision for the Government. The agency's agility and capability in managing debt and cash requirements may mean it retains capability to respond to additional activities. Regardless, it is important for the AOFM to stay focused on the efficient and effective fulfilment of its activities, and perform to the highest standard, rather than being diverted by the desire for a wider scope of activities.

As a delivery agency, the AOFM makes a positive contribution to strategic discussions on debt management. At present, its capacity to deliver high-quality market intelligence is under-utilised. The AOFM has not yet fully leveraged these opportunities or gained an appreciation of how it can usefully contribute. Creating an environment in which the AOFM's contribution is sought and recognised will in turn increase understanding of the agency and support more robust policy outcomes.

The AOFM should consider raising with the Treasury the role and operations of the AOFM Advisory Board.

At present, the Advisory Board's primary purpose is to provide strategic advice to the Secretary of the Treasury and its contributions in this regard have been recognised. At times the AOFM has also sought input from the Board on the governance and corporate affairs of the AOFM. While not an explicit responsibility under the Board's terms of reference, this assistance has been willingly provided.

Various parties have raised whether the AOFM Advisory Board as configured is the most appropriate vehicle for both roles. The Treasury and AOFM should together consider whether to address ambiguity over the Board's role. When this is resolved, the AOFM may need to examine if it would benefit from alternative governance advice.

A collegiate culture and workplace

Like many other agencies within the public and private financial sectors, the AOFM rewards and recognises technical skills. The success of the AOFM, like any organisation, depends on its technical prowess and the motivation of its people and its workplace culture, both of which rely on leadership.

Led by the CEO, the AOFM has recently been focusing on building its Executive Group into a cohort that manages the business, leads the agency and shapes its future. Members of the Executive Group have acknowledged there is much more to do in forging a new collective identity. At this stage, many staff believe the Group has yet to start modelling and communicating this change throughout the agency.

The review team noted, through agency feedback and analysis of the 2015 State of the Service census results, that the AOFM faces significant challenges with people management and staff supervision, both of which weigh on its potential performance. These challenges are evident across all parts and most levels of the AOFM.

The agency's culture is influenced by its task-based approach to work and its small team-based approach that can lead to staff working within silos. The culture is also impacted by the challenge of maintaining engagement when working in a static environment. Some staff expressed concerns about limited career development opportunities which means that the AOFM would benefit from the creation of a more positive and engaging culture. Significant opportunity exists for leadership to make some major and expeditious gains by improving the approach to and increasing its capabilities in people management. Above all else, it is imperative that the Executive Group seeks opportunities to demonstrate its commitment to a collegiate and inclusive culture and increase formal and informal communication efforts.

Furthermore, as part of any restructuring, the Executive Group should consider how to build a collegiate team approach across the agency. Equally, the group should pay attention to training and developing current and future managers in the fundamentals of people management.

Strategic human resource management

The AOFM is fortunate to have a number of long serving, highly skilled staff.

Nevertheless, the workforce is small and the requirement to hold various technical skills and expertise means limited career options for staff. Sustaining a viable workforce is an emerging challenge. Indeed, maintaining a well-rounded workforce may become even more difficult if there is a lift in overall activity and recruitment in the financial sector and if the trend continues of younger staff looking for multiple careers over their lifetimes.

While the AOFM has taken some steps in thinking about how it can sustain a skilled and capable workforce, a more proactive approach is required for staff development and broader succession planning beyond contingency planning.

At present, succession planning focuses on the immediate replacement of critical staff. The review team believes the AOFM needs to think more broadly and deeply about how to support staff with high potential, including by establishing career paths for them and filling gaps in current capabilities.

Development of existing staff is centred on enhancing the knowledge base needed to fulfil existing roles, not necessarily on enhancing individual capabilities to do what is required now and take on other responsibilities. To achieve this, the agency should invest in formal and informal personal and career development opportunities for its APS and EL staff, building not just technical but managerial and leadership skills. This could include mentoring and coaching options, secondment options within government and industry, and making the most of overseas postings.

It is necessary to build a model of diverse skillsets across the groups and make some possible structural changes to reduce the AOFM's exposure to critical person risks. Developing and implementing a workforce strategy that identifies the preferred future state and sets out a path for achieving that state will enable the AOFM to enhance the skills of its staff with higher levels of motivation.

In respect of bringing new staff into the agency, where opportunities arise to hire new graduates, their career development could be linked into the Treasury's graduate program, which provides development and rotation opportunities. Where appropriate, the agency should continue to recruit additional capacity or specialist skillsets.

In summary, the review team believes the AOFM will benefit from greater attention to its strategic human resources management.

This will address a growing risk the AOFM faces, support engaging existing staff and create a high-performing workplace. It will also give the Executive Group a chance to demonstrate its commitment to staff and show how it can work collegiately in the interests of the agency.

Indeed, if the AOFM can improve on its strategic human resources management, more effectively motivate its workforce, align its culture, offer staff a clear strategic direction and better engage with and work within government, it will see its people and organisational capabilities extended and realise a promising and rewarding future.



4. More detailed assessment of agency capability

This section provides an assessment framed by the leadership–strategy–delivery structure of the capability review model. Assessments were made according to the criteria set out in Figure 4.





	Strong	<ul style="list-style-type: none"> • Outstanding capability for future delivery in line with the model of capability. • Clear approach to monitoring and sustaining future capability with supporting evidence and metrics. • Evidence of learning and benchmarking against peers and other comparators.
	Well placed	<ul style="list-style-type: none"> • Capability gaps are identified and defined. • Is already making improvements in capability for current and future delivery, and is well placed to do so. • Is expected to improve further in the short term through practical actions that are planned or already underway.
	Development area	<ul style="list-style-type: none"> • Has weaknesses in capability for current and future delivery and/or has not identified all weaknesses and has no clear mechanism for doing so. • More action is required to close current capability gaps and deliver improvement over the medium term.
	Serious concerns	<ul style="list-style-type: none"> • Significant weaknesses in capability for current and future delivery that require urgent action. • Not well placed to address weaknesses in the short or medium term and needs additional action and support to secure effective delivery.

Figure 4—Rating descriptions

The review team's assessment of the AOFM's capability is outlined in the tables below.



Leadership

Set direction		Well placed
Motivate People		Development area
Develop People		Development area

Strategy

Outcome-focused strategy		Well placed
Evidence-based choices		Strong
Collaborate and build common purpose		Well placed

Delivery

Innovative delivery		Development area
Plan, resource and prioritise		Well placed
Shared commitment and sound delivery models		Strong
Manage performance		Well placed

4.1. Leadership summary

Set direction

- The AOFM is led by a CEO who has a consultative and considered approach.
- AOFM has a vision of 'excellence' in debt management. The focus should continue to be on fulfilling the current scope of operations well.
- The Executive Group is moving to a more collaborative state and participating in development activities to bring them together. However, the group is yet to start acting as a leadership cohort or model this behaviour to staff.
- The AOFM has limited and inconsistent internal communication, and staff lack opportunities to provide feedback.

Motivate people


- Staff enjoy and are proud of the work they do and see how it contributes to achieving outcomes.
- The high level of technical expertise within the AOFM is widely recognised.
- Some staff at times demonstrate a lack of enthusiasm and engagement, and the repetitive nature of many tasks leads to a level of complacency about driving the agency towards organisational excellence.
- Some managers and supervisors appear to lack people management skills.
- Poor performance is not well managed nor is support provided to do so.

Develop people

- Staff have access to a comprehensive suite of generously funded external courses and corporate training. However, the AOFM needs to better target its coordination of and spending on learning and development to development needs.
- The AOFM requires broad succession planning to mitigate loss of staff in critical short and long-term roles.
- Staff would benefit from a consistent approach to mentoring, coaching and personal and career development. This would be well received and would build agency capability.
- Staff are open to participating in other secondment and mobility opportunities, internally and externally. New graduates could be developed in part through rotations across a range of functions, and by linking them with Treasury's graduate programme.

Comments and ratings against the components of the 'leadership' dimension follow.

Set direction

Guidance Questions		<ol style="list-style-type: none"> 1. Is there a clear, compelling and coherent vision for the future of the organisation? Is this communicated to the whole organisation on a regular basis? 2. Does the leadership work effectively in a culture of teamwork, including working across internal boundaries, seeking out internal expertise, skills and experience? 3. Does the leadership take tough decisions, see these through and show commitment to continuous improvement of delivery outcomes? 4. Does the leadership lead and manage change effectively, addressing and overcoming resistance when it occurs?
Rating		Well placed

A well-led agency

Since its establishment in 1999, the AOFM has had three chief executive officers. Its current CEO, Rob Nicholl, started in January 2011 and has adopted a considered approach to the agency's debt and cash management responsibilities during a period of significant change in the AGS market. The CEO has an inclusive and consultative approach to managing staff.

Based on feedback provided during this review, the CEO's leadership is appreciated and admired both internally and externally.

Scope of operations

The AOFM has a clear scope of operations which includes managing sovereign debt on behalf of the Australian Government.

At times the AOFM has been assigned additional tasks by the Government, including establishing and divesting the RMBS portfolio. The agency subsequently questioned if its capacity demonstrated through effective execution of these tasks might lead to expanding its regular activities beyond debt and cash management.

Any expansion is a decision for the Government. In the meantime, the AOFM's agility and capability means it can respond to additional activities. However, it is important that the agency continue to focus on fulfilling its current scope of operations and ensuring its systems and people are performing as efficiently and effectively as possible.

This will enable the AOFM to contribute to broader policy discussions through offering its market intelligence as a way of building its visibility, profile and reputation across government; akin to the excellent profile and reputation it enjoys within the government securities market and with its external stakeholders.

Internal communication

Internal communication at the AOFM is limited and inconsistent. Messages from the Executive Group are often not shared with staff, and it is notable that there is no formal internal communication strategy or formal communication channels.

At present, the dissemination of messages depends on the style of individual Executive Group members. Only a few and occasional upwards feedback mechanisms are available for junior staff. State of the Service census results also indicated that communication by immediate supervisors has declined over the last year and is worse than other specialist agencies and the APS overall; down 14 per cent to 56 per cent in 2015 and 16 per cent less than other specialist agencies.² The AOFM would benefit from a more structured communication programme from the CEO and/or Executive Group.

The AOFM rightly operates on a 'need to know' basis to ensure the integrity of its tender and investor relations activities. This philosophy has, however, had an impact on the communication of corporate and other matters and there is inconsistency in deciding who needs to know what. Staff commonly observed that they are often not consulted or advised about developments that have an impact on their own tasks, until it is too late.

To date, the presumption has perhaps been that as a small agency formal communication has not been necessary. However, it is evident through this review that staff are calling for and would much appreciate a stronger and more consistent effort to communicate, including through formal and informal channels. Staff are proud to work at the AOFM and are eager to be informed about the agency and its activities.

A collegiate leadership


Related to the quality of internal communication is the AOFM's leadership culture and style. The Executive Group has recently pushed to adopt a more collaborative approach and work more as a cohort than as individual managers of particular and discrete functions. As part of this effort, Executive Group meetings are now more structured to promote greater exchange and members have participated in leadership training and an assessment centre to bring them together and identify competencies and development needs.

While the Executive Group acknowledges there is much more to be done, the common view of its members is that the Group is becoming more collegiate and cohesive. However this is yet to be appreciated by most staff which means the Executive Group needs to 'turn outwards' as much as 'work inwards' and start demonstrating its new style and approach in its communications, manner and behaviours.

External stakeholders are overwhelmingly positive about the willingness of the Executive Group to talk and respond to feedback, which means members already have the needed communications skills. They just need to apply them internally.

² Twenty-six staff responded to the 2015 State of the Service census, representing a 70 per cent response rate. Given the small size of the agency, care must be exercised when interpreting results.

Motivate people

Guidance Questions		<ol style="list-style-type: none"> 1 Does the leadership create and sustain a unifying culture and set of values and behaviours which promote energy, enthusiasm and pride in the organisation and its vision? 2 Are the leadership visible, outward-looking role models communicating effectively and inspiring the respect, trust, loyalty and confidence of staff and stakeholders? 3 Does the leadership display integrity, confidence and self-awareness in its engagement with staff and stakeholders, actively encouraging, listening to and acting on feedback? 4 Does the leadership display a desire for achieving ambitious results for customers, focusing on impact and outcomes, celebrating achievement and challenging the organisation to improve?
Rating		Development area

15

Generating enthusiasm and commitment

AOFM staff respect the technical capability of their colleagues. On several occasions, the review team heard that the agency has good people with good ideas. However, the review team also heard that staff can lack motivation and at times feel discouraged to strive hard. Moreover, there is a perception of complacency or lack of interest on the part of management to at times push the business harder and find more efficient and effective ways of working.

Issues with motivation and commitment may have contributed to staff expressing intention to leave the AOFM. This was reported in the 2015 State of the Service census results—44 per cent of respondents had applied for a job in the last 12 months and 12 per cent were looking to leave in the next year.

While well remunerated in comparison to colleagues in other APS agencies, it appears that the intrinsic forces motivating staff to perform well are not being adequately supported or sustained by AOFM leadership. Options for non-monetary rewards and informal recognition have been discussed by the Executive Group but are yet to translate into concrete and sustainable actions that encourage and engage staff. Some staff are concerned that previous initiatives have been inconsistently applied.

Maintaining staff motivation and morale can be a challenge in a static environment and within a delivery agency that reproduces the same products and carries out the same tasks on a regular or 'repetitive' basis.

It would be very damaging if morale issues began to have an adverse impact on AOFM activities. Clearly the underlying passion of staff for their work can be better captured and directed.

Supervision and people management practices

A key factor impacting on motivation is people management practices, particularly the quality of supervision in the AOFM.

Most significantly, there appears to be some 'disconnect' between staff and management in conduct and expectations. The 2015 State of the Service census results indicated a decrease in staff engagement with their supervisor, engagement with job and the agency improved and engagement with the team remained steady.

Although respected for their technical expertise, senior staff are not seen to encourage, support or develop their staff, resulting in an environment where initiative is not rewarded and supervisor engagement is declining. Further, senior management are not engaged with people management activities. They tend to avoid these activities preferring to focus on the technical aspects of their roles.

The perception is that poor performance in the AOFM is not well managed, leading to discontent from those who are performing well or trying to manage poor performers themselves.

In this regard, the AOFM's sound performance management process is inconsistently executed. Performance management is often treated as a compliance exercise rather than a genuine opportunity to provide feedback and identify opportunities for development. Various managers and supervisors place little importance on proactively providing formal and informal performance feedback. When positive feedback is provided on actual performance, there is little to no discussion on further development.

Greater emphasis on embedding a culture of having fair and meaningful discussions on performance and development is required. Development plans for all staff should link to the corporate plan, business group plans and individual professional, personal and career development needs. This will identify gaps and enable the agency to develop skillsets and, where appropriate, provide opportunities for cross-skilling, which will instil greater flexibility in the workforce.


To support this, most staff with people management responsibilities need to be upskilled so they can perform their roles effectively in this area and support changing the current practice and culture.

Diversity at the AOFM

In relation to people management, AOFM staff do not believe the agency gives sufficient regard to promoting workplace diversity. According to the 2015 State of the Service census results, only 35 per cent of respondents agreed that the agency is committed to creating a diverse workforce. This is 34 per cent below the rest of the APS.

Active support for diversity can be a force for cultural change and can deepen and widen the agency's available talent pool. While specific actions in support of diversity may be limited outside of recruitment and selection processes for a small agency with a stable workforce, in the first instance there may be lessons to be learned from the Treasury's Progressing Women initiative. The AOFM should also take other steps to create a more diverse and inclusive workforce.

Develop people

Guidance Questions		<ol style="list-style-type: none"> 1. Are there people with the right skills and leadership across the organisation to deliver your vision and strategy? Does the organisation demonstrate commitment to diversity and equality? 2. Is individuals' performance managed transparently and consistently, rewarding good performance and tackling poor performance? Are individuals' performance objectives aligned with the strategic priorities of the organisation? 3. Does the organisation identify and nurture leadership and management talent in individuals and teams to get the best from everyone? How do you plan effectively for succession in key positions? 4. How do you plan to fill key capability gaps in the organisation and in the delivery system?
Rating		Development area

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Learning and development

Staff have access to a comprehensive suite of external courses and corporate training. The average investment of more than \$2,500 per full-time equivalent staff member in 2014–15 reflects the need for the agency to maintain its technical capability.

Despite these positive results, the courses and training the AOFM offers do not always appear to link to the performance management process or any formal development plan. Conversations on career progression are not consistent across the agency and there is no explicit mechanism for identifying or nurturing talent. Staff perceive that access to learning and development is left to individual initiative and that supervisors are not part of the development conversation. For example, according to 2015 State of the Service census results, only 50 per cent of AOFM respondents reported that their immediate supervisor 'develops people'. This is well below the agency's 2014 results (down 10 per cent), other specialist agencies (17 per cent lower) and the APS overall (14 per cent lower). Additionally, there appears to be no structured approach to managing and administering the training budget. Accordingly, it is reasonable to conclude that some expenditure on learning and development is not as effective as it could be.

The review team suggests that more rigour be placed around linking learning and development expenditure to development plans and taking a coordinated approach so capability is developed across the board. This would also help address the perception of bias in allocating training which is in part an outcome of the current ad hoc process and a factor that contributes to morale and culture issues.

From succession planning to career development

Attention has been given by management under the current workforce plan towards identifying key person risks and putting in place contingency plans should these risks be realised. Current contingency plans only deal with critical positions becoming vacant. Given the relative stability of the workforce at upper levels, the AOFM can predict when a planned retirement is likely to occur.

Positive as this may be, there remains a clear need to succession plan beyond the challenge of replacing individuals in the event of an immediate vacancy. Some staff have also commented about the size of the skill and experience gap between the Executive Group and EL1 staff. The AOFM needs to also think about succession in the medium and longer term, in the context of 'career development'.

Career opportunities in the AOFM are seen to be available primarily within individual working groups. Providing other extension and career development opportunities across groups would enrich the skills and experience of individual staff.

A genuine and consistent approach to mentoring, coaching and career development designed to demonstrate trust and confidence would also be well received, act as a motivator and benefit employee and employer.

Finally, the inconsistent use of the APS5 to EL1 broadband classification is seen by some staff as limiting opportunities and creating tension. However, if used effectively, this broadband classification could be one way of attracting high-performing graduates who would start at a higher level when compared to other agencies. If the right development and mobility strategies were also put in place, this could form part of a retention strategy.

Mobility

Staff made it clear to the review team that they have limited opportunity to expand their skills within current structural arrangements. Movements across front, middle and back offices have been sporadic and arbitrary or driven by an individual's wish to broaden their perspective. Movement has not been actively encouraged or coordinated by the agency and at times may have been resisted by individual managers and supervisors.

Greater rotation between functional areas would create understanding and benefit both staff and agency by providing transferable skills across the AOFM. While such rotation arrangements would cost the AOFM, management should recognise the long-term benefits. Current overseas deployment rotations should be promoted as development opportunities.

Possible secondments to agencies such as the Treasury, Reserve Bank of Australia, Australian Taxation Office, Department of Finance, and Australian Bureau of Statistics would be well regarded and benefit staff from both AOFM and the agencies involved. Secondments to the financial market sector could equally be beneficial in developing and expanding staff skills and providing opportunities to experience the sector from other perspectives. While difficult to negotiate, this could be included as an element of a reward and recognition programme where staff take up the secondment through a nomination or selection process.

Marketing these opportunities as a valuable and sought-after experience and something to strive for, could contribute to morale.

A graduate programme

Due to staff at senior levels historically remaining with the agency, the AOFM tends to recruit new staff at entry or graduate levels. There is no formal graduate programme.

Although new graduate recruitment occurs only periodically, benefits would be realised if arrangements encompassed broad exposure to a wide range of areas and include direct connection to the Treasury's graduate programme. Selecting graduates could be a collaboration with the Treasury upon identifying the required skill set. This would help develop the relationship and build understanding between the two organisations, in time creating a platform for future mobility opportunities.

4.2 Strategy summary



Outcome-focused strategy

- Staff at all levels are involved in planning. Business units and staff are clear about the objectives for ‘business as usual’ and strategic priority projects.
- Strategic objectives concentrate on ‘portfolio’ objectives with less emphasis on strategic ‘organisational’ objectives.
- The AOFM has an opportunity to review its priorities periodically throughout the year, engaging and updating staff. This would emphasise and ensure unity and clarity of purpose and check the relevance of or progress against key performance indicators (KPIs).

Evidence-based choices


- The AOFM undertakes sound modelling and analysis and considers future scenarios.
- The agency provides highly regarded advice based on quantitative and modelling skills augmented by qualitative analyses of trends among investors, global financial markets and emerging risks.
- The AOFM’s reporting function is highly capable but could extend reporting to include greater diagnostic insights.

Collaborate and build common purpose

- Intermediaries, investors and comparable organisations regard their relationship with the AOFM as ‘excellent’.
- The CEO and Head of Investor Relations have been effective in raising the agency’s profile through engagement with domestic and offshore investors.
- The AOFM should enhance its engagement with the Treasury, Finance and other parts of the Government by providing market intelligence and strategic input.
- The AOFM should discuss the Advisory Board’s role with the Treasury to address possible ‘ambiguities’ in its operation.

Comments and ratings against the components of the ‘strategy’ dimension follow.

Outcome-focused strategy

Guidance Questions		<ol style="list-style-type: none"> 1. Does the organisation have a clear, coherent and achievable strategy with a single, overarching set of challenging outcomes, aims, objectives and measures of success? 2. Is the strategy clear about what success looks like and focused on improving the overall quality of life for customers and benefiting the nation? 3. Is the strategy kept up to date, seizing opportunities when circumstances change? 4. Does the organisation work with political leadership to develop strategy and ensure appropriate trade-offs between priority outcomes?
Rating		Well placed

A clear portfolio strategy

The AOFM's portfolio strategy is determined on government financing requirements as established through the Budget. It is confirmed annually by way of a memorandum to the Treasurer setting out the proposed mix of nominal and indexed bonds for the year ahead. The detailed issuance of securities is then the subject of an Annual Remit, discussed by the Advisory Board and determined by the Treasury Secretary.

Success is measured against four performance indicators: cost-effectiveness; fulfilment of government cash requirements; management of risk; and ensuring that the AOFM remains a credible custodian for the AGS and other markets. The agency's financial risk policy framework (consisting of detailed policies on balance sheet, liquidity, interest rate and credit risk) provides further operational guidance.

While the process for settling and revising the strategy has remained relatively unchanged, the strategy itself has evolved considerably since the GFC from one that focuses on maintaining a minimal securities market to one that focuses on rapid changes in annual issuance, building of liquidity, extending the yield curve and seeking a bias towards longer maturities issuance.

The portfolio strategy was developed with feedback from investors and is clearly communicated in speeches to the market by the CEO and in publication of intentions on the AOFM website. Although the Government does not explicitly specify its risk appetite or detail trade-offs between cost and risk, the AOFM has successfully developed sovereign debt management strategies. It has also successfully managed the portfolio strategy's execution and in a way generally regarded as 'savvy' and to the benefit of both the Government and financial sector.

Organisational strategy

The AOFM's portfolio objectives are well established and relate specifically to meeting the Government's financing and cash requirements.

A number of documents clearly articulate the agency's objectives.


The Corporate Plan 2015–16 sets out objectivities and key activities for a 12-month period and highlights challenges and issues to be monitored during that period. It guides the development of strategic project plans, annual business group plans and individual performance plans.

Performance is measured in terms of AOFM's effectiveness in ensuring it is a well-managed organisation. Specifically the agency is concerned with its cost-effectiveness and risk maturity, whether it meets legislative requirements and operates within financial constraints.

The AOFM has organisational policies in place, but would benefit from a clear over-arching strategy covering how human capital would help it realise its strategic objectives. The absence of a strategic human resources management framework presents a point of contrast with other high-functioning entities. Equally there is little sense of how the AOFM's structure, delegations and governance arrangements are driven by an overarching vision and what the agency needs to become and remain effective into the future.

This absence is in many respects expected given that the Executive Group is yet to be fully effective for the leadership of the agency.

Evidence-based choices

Guidance Questions		<ol style="list-style-type: none"> 1. Are policies and programmes customer focused and developed with customer involvement and insight from the earliest stages? Does the organisation understand and respond to customers' needs and opinions? 2. Does the organisation ensure that vision and strategy are informed by sound use of timely evidence and analysis? 3. Does the organisation identify future trends, plan for them and choose among the range of options available? 4. Does the organisation evaluate and measure outcomes and ensure that lessons learned are fed back through the strategy process?
Rating		Strong

Acknowledged for an evidence-based approach

The AOFM's consistent and nimble achievement of its core activities, including Government-directed extensions to those activities, was universally commended by external stakeholders, including Government. Staff technical skills and expertise were held in high regard. Stakeholders spoke of AOFM's exercise of sound judgement and its effective analyses.

The agency has a methodical and considered evidence-based approach to portfolio strategy development and the delivery of its core business. It reported a number of examples where quantitative and qualitative data inform decision making. The agency looks to other debt management offices for insight into better practice.

There is research capability in the front and middle office functions and continuous improvement in strategy formulation processes as a result of comparison with other debt management offices.

Reporting

The middle office provides reports to the front office and Advisory Board. These reports are primarily descriptive and historical in nature. The AOFG, however, may wish to explore the potential for developing a greater diagnostic component in its reporting, to assist in analysis of its portfolio and strategy development.

Reports are also not disseminated widely within the agency despite the keen interest of staff. The AOFG would benefit from soliciting feedback from stakeholders on their publicly available reports.


The treasury system employed in the AOFG, Quantum, has recently been upgraded as a business enhancement initiative designed to automate reporting and enhance data integrity. Alongside this upgrade, a framework is being designed to deliver a centralised reporting function. This is expected to provide 'a single source of truth' with data integrity. At the very least, it will eliminate the current practice of duplicating records and data. A survey to evaluate the framework will be conducted as part of development.

Geographical location

Throughout this capability review, geographic location was mentioned in several interviews although not as a priority. Some felt the agency was better situated in Canberra where it is close to government. Others felt it would be better situated in Sydney close to financial markets. Some perceived 'strong resistance' by current staff on the matter of relocating. It could well be argued—with the world becoming increasingly connected through ICT—that relocating would have to be well thought through and supported by a strong rationale.

Nonetheless, the AOFG may need to consider moving from Canberra. Factors to consider would include the retirement of some staff, aspirations of remaining staff and the need to minimise disruption for staff and the agency's core business.

Collaborate and build common purpose

Guidance Questions		<ol style="list-style-type: none"> 1. Does the organisation work with others in government and beyond to develop strategy and policy collectively to address cross-cutting issues? 2. Does the organisation involve partners and stakeholders from the earliest stages of policy development and learn from their experience? 3. Does the organisation ensure the agency's strategies and policies are consistent with those of other agencies? 4. Does the organisation develop and generate common ownership of the strategy with political leadership, delivery partners and citizens?
Rating		Well placed

Relationships with external stakeholders

Stakeholders widely acknowledge how wise it was for the AOFM CEO and Secretary of the Treasury to create a dedicated Investor Relations Unit at the time of the GFC. The need to increase issuance as the Budget moved into deficit was at the unit's core. Since that time, the AOFM has shifted focus to developing a long-run portfolio strategy and consequent issuance, identifying appropriate market developments and expanding the investor base.

To this end, the AOFM has primarily relied on face-to-face engagement, conducting between 12 and 15 major activities and about eight roadshows a year, each spanning at least a week. The investor base has grown significantly as a result. The agency regularly presents at events such as the Australian Business Economists post-budget conference in Sydney, the OECD debt management conference in Paris and the twice yearly Indexed Bond roundtable discussions with investors in Sydney. It expects to continue with these activities to expand the investor base and the important work of maintaining existing relationships.

Throughout this capability review around 50 investors and counterparties were interviewed, all of whom reported a high degree of confidence in the AOFM as a responsive, open and fair debt management agency. The agency's considered approach to building the market in the seven years since the GFC was considered 'impressive' in addressing gaps in the maturity profile and extending the yield curve.

On occasions when conducting its roadshows and engaging with investors, the AOFM has worked with state-based borrowing authorities who have acknowledged the agency's leadership and how well-informed and connected it is with the market. The CEO was considered 'a thought leader', demonstrating a sound understanding of the market and requirements of banks while attending and presenting at conferences. Critical information is also published on the AOFM website.

Nevertheless, as might be expected, some parties would like greater transparency around AOFM processes or at least a better understanding of its decision-making processes. Some comments related to syndications. The AOFM should continue to work with relevant parties to ensure its positioning and reasoning are as clear as possible to all stakeholders.

Relationships within the Australian Government

While a delivery agent, the AOFM needs to have an effective working relationship with its principal policy partners—Treasury and Finance.

The agency's principal interactions within government are with the Treasury for debt issuance and with the Department of Finance and the RBA for management of cash. These interactions are generally effective as demonstrated by the successful management of the issuance programme and the Official Public Account. There is scope to explore further sharing of insights and ideas, realising additional benefits from these interactions.

At a strategic level, all parties feel there is room to improve knowledge sharing and market intelligence between the Treasury, Department of Finance and the AOFM. The AOFM is the repository of significant and valuable information on financial markets and market conditions, gained through its regular dialogue with market participants and through its roadshows. This repository information should be effectively shared and used with key government stakeholders where it would be valued. For this purpose, there could be discussion about finding new ways to educate and debrief each other outside the forum of the Advisory Board. For example, it may be appropriate to identify key relationship contacts

within various agencies. Secondments and rotations may also help build understanding. At the end of the day, however, the AOFG must create a positive environment in which its input is sought and valued. It can do this by understanding the agendas of others and building working relationships, just as it has with its external stakeholders.

The Advisory Board

The Advisory Board's role was the subject of some discussion during this capability review. The Board is appointed by and accountable to the Secretary to the Treasury. Its purpose is to provide the Secretary with advice on debt management and associated operational strategy. Under its charter, the Board may also from time-to-time comment on the AOFG's performance and provide advice on corporate governance arrangements.

In accordance with this purpose, the Advisory Board has been called upon to provide advice to the agency on its operations and provide oversight and advice on its portfolio strategy. In this respect, it is noteworthy that the Board is briefed on the AOFG's audit plans, financial statement and corporate plan. In some respects it operates as a 'board of directors' would for a private company.

Some Board members reported to the review team that they have had to encourage the AOFG to be more proactive in its strategic thinking. Others consider that the AOFG has been driving strategic decision making in cooperation with the Board.

Irrespective of this, and noting that ultimately the role and direction of the Advisory Board is a matter for the Treasury Secretary, the AOFG and Treasury should together consider if there is a need to address any ambiguity over the role of the Board. Subject to this being resolved, the AOFG may then need to examine if it could gain from a separate arrangement designed to advise on governance and corporate matters.

4.3 Delivery summary

Innovative delivery

- There is no formal organisational framework to support innovation within AOFM. Staff perceive that the agency has limited interest in pursuing new ideas and approaches.
- The agency has successfully raised financing to meet increasing Budget deficits and, in doing so, has shown flexibility and creativity.
- The AOFM is looking to leverage the upgrade of its treasury system, Quantum, to streamline business processes and improve reporting.

Plan, resource and prioritise

- The AOFM is well resourced to deliver its core responsibilities. Its corporate planning process provides some rigour on resource alignment to priorities, however, decision making appears subjective.
- The agency agrees on strategic projects annually as part of its corporate planning process, however, project management could be improved and devolved in the interest of staff development and engagement.

Shared commitment and sound delivery models


- The management of the Quantum project demonstrates a capability to provide effective project governance.
- The AOFM has strong and collaborative relationships with key service providers.
- ICT is a vulnerability for the AOFM following the recent move to a shared services arrangement. The agency needs to work with the Treasury to ensure the shared services contract is well managed and risks minimised.
- The AOFM has scope to change its organisational structure to facilitate greater collaboration and career development and reduce silo mentality.

Manage performance

- The AOFM has increased capacity in assurance and risk management, reflecting the low tolerance of risk in government.
- The agency has developed KPIs and included these in its corporate plan. These indicators are now being tracked.
- The Executive as a group do not evaluate performance against group business plans and strategic projects. There is no evidence that performance data is being used as yet to drive or refine the business.

Comments and ratings against the components of the 'delivery' dimension follow.

Innovative delivery

Guidance Questions		<ol style="list-style-type: none"> 1. Does the organisation have the structures, people capacity and enabling systems required to support appropriate innovation and manage it effectively? 2. Does the leadership empower and incentivise the organisation and its partners to innovate and learn from each other, and the front line, to improve delivery? 3. Is innovation explicitly linked to core business, underpinned by a coherent innovation strategy and an effective approach towards risk management? 4. Does the organisation evaluate the success and added value of innovation, using the results to make resource prioritisation decisions and inform future innovation?
Rating		Development area

Creativity in building the market

The AOFM consistently delivers its core business of raising financing to meet the Budget deficit, settling transactions and managing the aggregate daily cash balance in the Official Public Account so the Government can meet its expenditure requirements. The agency has delivered these functions in the context of continuing and increasing deficits since the GFC, extending the yield curve with consideration to what might be deemed acceptable risk to Government while minimising the interest costs of financing.

While not strictly innovative, this has required flexibility and creativity in implementing public debt policy. It has also required the AOFM to balance the need to achieve strategic objectives for the portfolio with the need for a cautious approach to maintaining its market reputation and Australia's credit rating.

Creating a supportive culture for innovation

The AOFM has demonstrated flexibility and agility when undertaking additional activities, and the agency feels it is at its most vibrant when responding to such activities. However, the current static organisational environment and absence of the imperative created by serious resource constraints, has meant that the AOFM has not been compelled to create a strong culture of innovation. This is exacerbated by the absence of any formal framework to support innovation.

The 2015 State of the Service census results, for example, noted that only 58 per cent of respondents thought their immediate supervisor encouraged innovation. This is 5 per cent less than the APS overall and 9 per cent less than the agency's 2014 result. There appears to be a perceived level of disinterest from management and supervisors which results in self-censorship on the part of junior staff who may have worthy ideas but are not willing to raise them.

Whether perceived or real, the point was made during the review by a number of stakeholders that the focus on good control and compliance within the AOFM, while admirable, may

also at times hinder staff's ability to think laterally and engage with risk. Some stakeholders perceived that this focus was, at times, more reflective of individual management's level of risk aversion. Given the long tenure of EL2s, management may be more sensitive to potential public criticism because of the agency's past experience. For example, the reputational damage resulting from the currency rate swap reportage in the early 2000s still exists in AOFM's corporate memory and may still be influencing decisions to maintain the status quo.

Given that the majority of staff consider there are opportunities to be more creative in the work they undertake and that the Advisory Board at times has challenged the AOFM to think more broadly, consideration should be given to encouraging new ideas and trialling these—whether related to managing the portfolio or operating the agency.


This should include creating a framework that allows staff to raise new ideas and suggestions outside of the existing hierarchical structure. Greater dialogue with borrowing authorities in other jurisdictions may also be an avenue for stimulating thinking and identifying possible improvements.

Making the most of technology

The AOFM's use of industry systems for tender and settlement functions, complemented by its own business processes, is viewed positively by stakeholders who think these operations are appropriate and contemporary.

The recent Quantum upgrade project is an example of the AOFM responding to changes in the technological environment, with greater data automation and less manual workarounds anticipated. A strategic project is dedicated to ensuring the AOFM leverages the new functionality to streamline business processes and improve reporting. However, the conclusion of this project should not be an end in itself. The AOFM should look 'up and out' in regard to what disruptive technologies may impact on its business and the government securities market into the future and the risks (including opportunities) these present. External stakeholders hold some expectations that the AOFM will monitor developments in digital technology, the impact on its operations, and how it can best leverage technology effectively to deliver into the future.

Plan, resource and prioritise

Guidance Questions		<ol style="list-style-type: none"> 1. Do business planning processes effectively prioritise and sequence deliverables to focus on delivery of strategic outcomes? Are tough decisions made on trade-offs between priority outcomes when appropriate? 2. Are delivery plans robust, consistent and aligned with the strategy? Taken together will they effectively deliver all of the strategic outcomes? 3. Is effective control of the organisation's resources maintained? Do delivery plans include key drivers of cost, with financial implications clearly considered and suitable levels of financial flexibility within the organisation? 4. Are delivery plans and programmes effectively managed and regularly reviewed?
Rating		Well placed

A well-resourced and managed agency

While small, the AOFM is resourced well to deliver on its current mandate. The Australian National Audit Office has commented favourably on its controls and reporting. Its financial reporting system and processes are sound and its annual financial statements continue to be unqualified. Every two years, the agency undertakes 15-year projections to inform long-term budget planning.

Internal governance arrangements within the AOFM comprise the Executive Group and Audit Committee. Portfolio Strategy Meetings and Cash Management Meetings are forums to discuss formulating and executing the portfolio strategy.

The AOFM's corporate planning process provides rigour in aligning resources to priorities and the decisions flowing from the corporate planning process translate through to annual group business plans. Comparatively speaking, there is some alignment of individual performance plans to corporate objectives, although as previously noted this can be inconsistent across the agency.

It is evident nevertheless that through the year priorities are not necessarily reviewed against strategic objectives. The Executive Group as a whole has opportunities to actively manage a range of corporate activities including, but not limited to, human resource management, financial management and risk management. Equally, the centralised budgeting process reduces the accountability of Group Heads for corporate outcomes.

Indeed, it was commonly suggested through the capability review that while corporate processes are often well documented, actual practice can be markedly different. This stands in marked contrast to the integrity and rigour evident in tender and settlements processes.


Improving project management

One area of interest from a capability perspective and potential focus of change is project management.

Four to five strategic projects are agreed annually as part of the corporate planning process and generally require input from across groups. Some projects appear to be delivered in time and to scope, while others do not.

Project management could be improved generally across the agency and a greater devolution of responsibility for these projects could be of use in staff development and engagement. The approach taken to the Quantum upgrade project is an example of the potential for the AOFM to employ good project management, governance processes and strong teamwork using taskforces that work across the agency. While this may be of a larger scale compared to most strategic projects, it still represents a model worth copying for other projects.

Shared commitment and sound delivery models

Guidance Questions		<ol style="list-style-type: none"> 1. Does the organisation have clear and well understood delivery models which will deliver the agency's strategic outcomes across boundaries? 2. Does the organisation identify and agree roles, responsibilities and accountabilities for delivery within those models including with third parties? Are they well understood and supported by appropriate rewards, incentives and governance arrangements? 3. Does the organisation engage, align and enthuse partners in other agencies and across the delivery model to work together to deliver? Is there shared commitment among them to remove obstacles to effective joint working? 4. Does the organisation ensure the effectiveness of delivery agents?
Rating		Strong

Solid delivery capability

As noted, the AOFM is staffed by highly capable individuals with strong technical knowledge who have successfully managed an expanded debt issuance programme since 2009. They have also on occasion managed additional tasks on behalf of the Government.

Through its efforts, the AOFM has created a deeper and more liquid AGS market and the review team consistently heard praise for the agency from its external stakeholders for its delivery of the Government's requirements and support for the Australian Government securities market.

A partnership approach

The AOFM conducts its auctions and settlements through a delivery model that relies on a number of key systems provided by third parties. These include Yieldbroker for the conduct of tenders, Sungard for internal treasury and accounting systems and Computershare for retail register services. The agency also partners with various financial intermediaries for syndications and with the Reserve Bank of Australia, particularly with cash management activities.

It is evident from discussions with equivalent debt management offices around the world that there are other ways to configure sovereign debt operations and alternative approaches that may see some functions outsourced and others carried out in-house.

The AOFM appears to be abreast of these options and the latest developments, not just through its bilateral contacts but through its participation on the OECD Working Party on Debt Management and links with the International Monetary Fund.

There is little to distinguish the efficacy of one model over another. Rather, the AOFM's focus has been to provide stability in its approach to delivery to the benefit of market participants and to ensure it has strong and collaborative relations with its critical partners. In this respect it is notable that feedback from these stakeholders on the workings of AOFM's delivery model has been very favourable. This, in combination with its own internal strengths, has facilitated the successful exponential expansion of the debt issuance programme and the deepening of the AGS market.

Fit-for-purpose assurance and risk functions

As part of its consultations the review team heard occasional questioning on whether the level of controls in place within the AOFM are fit-for-purpose and whether its assurance and risk management functions have imposed an increased operational rigidity that is limiting the agency's creativity and responsiveness.

In this respect, it is important to acknowledge that the AOFM operates within a public sector framework and cannot engage in levels of risk taking similar to those of private sector businesses. Moreover, before 2011, compliance was probably 'underdone' within the agency and it was appropriate with the expansion of the issuance programmes to increase capacity in assurance and risk management and ensure compliance with key obligations in the management of public funds.

External stakeholders interviewed during the review appeared to take comfort in knowing that the AOFM had in place due process, and that this was appropriate given the nature of the agency as a public sector entity operating in financial markets.

The point was made that looking at the function from within the agency it might well be perceived as restrictive; but from the outside 'looking in' it was viewed as proportionate. It is worthwhile recognising that strong assurance and compliance frameworks can in fact give licence to creativity and facilitate expeditious execution of strategy, if properly understood and applied.

Possible structural change

In respect of its internal model of delivery, the AOFM has rightly sought to ensure the integrity of its processes by structurally separating activities into front, middle and back office functions; as have most other debt management offices around the world.

There is, however, no uniform view as to what functions sit in which 'office'. For example, portfolio strategy is at times treated as a front, middle and even a back office function. Client relationship management can be seen as a front or middle office function.

Separate to any such debates, there is consensus within the AOFM that there is too much structure around existing units and that the agency is overly siloed and hierarchical as a consequence. Indeed, a span of control of three or four levels in an operation of only 40 staff seems excessive.

It is understood that the structural arrangements in AOFM are currently under consideration, particularly following the outsourcing of ICT services to a shared services arrangement with the Treasury.

It is not within the scope of this report to make particular recommendations on organisational arrangements. However, the review team strongly suggests that deliberation over the structure of the agency consider developing a flatter and less siloed structure which could:

- promote greater team work within and across the agency
- improve communication and information flows
- provide greater development opportunities and variety in work for staff.

Effective and reliable ICT


As a small agency, the AOFM has understandably looked to leverage from others and is now outsourcing various corporate functions rather than maintaining them in-house.

As an entity within the Treasury portfolio, the AOFM has logically sought to use the Treasury's shared services. At the time of this review, ICT operations had only recently been transferred to the Treasury. The effectiveness and implications of this transfer were therefore 'front of mind' for many in the agency.

While the AOFM has solid back-up capacity and contingencies established and tested through its business continuity planning, a failure in its systems as a consequence of ICT failure would leave the agency vulnerable and could have wider flow-on effects impacting on the reputation and credibility of the AGS market.

Given that the AOFM remains accountable for the effectiveness of its ICT, it is critical that both parties work closely together to ensure an appropriate level of service responsiveness and defined governance exist, just as the AOFM has done over time with its other key delivery partners. Identifying a relationship manager in the AOFM may be useful.

Manage performance

Guidance Questions		<ol style="list-style-type: none"> 1. Is the organisation delivering against performance targets to ensure achievement of outcomes set out in the strategy and business plans? 2. Does the organisation drive performance and strive for excellence across the organisation and delivery system in pursuit of strategic outcomes? 3. Does the organisation have high-quality, timely and well-understood performance information, supported by analytical capability, which allows you to track and manage performance and risk across the delivery system? Does the organisation take action when not meeting (or not on target to meet) all of its key delivery objectives?
Rating		Well placed

Setting targets

The AOFM has instilled more rigour into the development of corporate plan KPIs to align with whole-of-government requirements on corporate planning and performance reporting under the *Public Governance, Performance and Accountability Act 2013* (Cwlth).

The AOFM has mapped its corporate KPIs back to its vision, mission and business objectives. The agency has also developed methodologies and targets to measure performance against these KPIs. A performance management framework has been documented, articulating the process for developing performance indicators, reporting and monitoring performance, evaluating KPIs, and evaluating key responsibilities under the framework. The AOFM has begun formally tracking performance against its corporate KPIs. Outcomes will be reported in the Annual Performance Statement in accordance with the Australian Government's resource management framework.

The challenge for the AOFM is to consider reviewing KPIs at group business plan level. The review team noted that some plans posed questions as KPIs, whereas in other business plans there appeared to be an ambiguous relationship between the KPIs and the purpose and deliverables of the business units in question.

Currently, targets are not set for strategic projects that are agreed as part of annual corporate planning. Priority project briefs are prepared, but not always followed by a more detailed project plan. It would be appropriate to set and monitor targets for strategic projects given their corporate significance to the AOFM.

The AOFM will need to systematically assess performance as set out in its corporate plan, group business plans and strategic project plans. The Executive Group needs to regularly monitor and ensure the agency measures its success and incorporates lessons learned to continually improve business and review the relevance of performance targets.

Reporting and driving performance

The Executive Group reviews dashboard reports quarterly on risk, assurance activities and corporate back office performance. It is questionable whether the back office measures are appropriate, however the review team acknowledges that it is often difficult to find alternatives. It is also unclear whether the Executive Group is using this performance information to drive decision making and if they are interrogating the information and asking questions relating to the running of the business or just using the reviews as a superficial exercise and more of a 'tick and flick' compliance exercise.

Decisions in response to data are not being communicated to staff. The Executive Group's meeting minutes are brief and often not supplemented by members when debriefing their business units. A gap also exists in reporting with performance of business units not tracked or assessed collectively. Driving performance necessarily entails holding organisational areas to account and assessing their performance in completing deliverables and achieving performance indicators.

Risk management

The AOFM's sound enterprise risk management framework ensures consistency in managing risks at strategic, portfolio and operational levels. Subsidiary frameworks include the fraud control framework and business continuity framework. The enterprise risk and assurance dashboard is complemented by material risk reporting (that is, risks rated extreme or high at residual basis) and reporting on risks that exceed appetite. The Executive Group also reviews strategic risks quarterly.

The agency has proactively identified opportunities and made efforts to encourage staff to think about 'what must go right' as opposed to focusing on 'what could go wrong' in achieving business objectives. The agency is viewed as being extremely well run in relation to enterprise risks. It has performed well in the whole-of-government annual Comcover Risk Management Benchmarking Program and internal auditors recently rated the enterprise risk management and fraud control frameworks as being sound in design and aligned with better practice and current legislative requirements.

The agency should continue to encourage staff to identify and manage emerging opportunities to improve business practices as well as maintain its reputation inside and outside of government as a prudent agency. Doing so will become even more important as the difficulty grows in meeting potentially increasing Budget deficits.

The agency has had a strong focus on good management through quarterly reviews of risk assessments, documentation of business processes and control reviews. The agency regularly tests its business continuity arrangements to ensure preparedness in the face of business disruptions, and its fraud control reviews are viewed positively by auditors and the Audit Committee. It is commendable that the agency is conscious of minimising reputational damage in the Australian sovereign debt market.

5. The agency's response

The AOFM chose to engage in the capability review process as an integral part of its current workforce plan. The purpose of the review from an AOFM perspective was to prompt structured and comprehensive external feedback on, and an assessment of, its approach to fulfilling core responsibilities together with its readiness to deal with prospective challenges. Having an extensive network of stakeholders, whose support is important for the success of its operations, the AOFM is wise to maintain an awareness of its actual (rather than self-perceived) ability to build and maintain productive external relationships. Internally, the AOFM faces similar (and in some respects greater) challenges to other public sector agencies in motivating highly skilled staff – largely because of its small size and relatively narrow mandate. While expecting positive reinforcement about many things the agency does, it was always the case that there would be some areas highlighted for improvement. The outcome of the capability review indicates this.

The overall capability assessment is very positive with the agency being viewed as either well-placed or strong for seven of the 10 categories of consideration. It has been assessed as needing further development in the remaining three categories but with no serious concerns identified for any category. The report indicates the AOFM as having highly capable staff that apply themselves in a manner that consistently delivers high quality (core) outcomes. In addition, it has established an appropriate network of external relationships that facilitates achieving its primary financing tasks. Room for improvement has been identified in areas relating to its internal communication style, some aspects of management capability, and addressing staff expectations on career progression and development opportunities. The review also highlighted an opportunity for the AOFM to share its knowledge and expertise more widely within government.

The AOFM response to the capability review will focus on: (1) developing 'products' and processes that create opportunities to share knowledge and expertise with other agencies (in particular Treasury and the Department of Finance); (2) practising a more engaging approach to internal communications; (3) clarifying some internal HR policies so that staff are clear as to the expectations that can be met and where the agency's constraints to providing development opportunities lie (including revised thinking on the use of graduates in AOFM); and (4) a tighter focus on use of the performance management system, together with some coaching for those with managerial responsibilities. Ways to improve the effectiveness of the role for the Executive Group will also be explored.

Some of these changes can be adopted with little effort and within the short-term and efforts to implement some of the supporting activities have commenced (eg internal communication changes). Others will require consideration and guidance from the agency's Executive Group. An action plan will be devised and staff consulted on its content and direction prior to year end.



Rob Nicholl
Chief Executive Officer

6. Abbreviations and acronyms

AGS	Australian Government Securities (Treasury Bonds, Treasury Indexed Bonds and Treasury Notes)
AOFM	Australian Office of Financial Management
APS	Australian Public Service
APSC	Australian Public Service Commission
CEO	Chief Executive Officer
EL	Executive Level
GFC	global financial crisis
ICT	information and communication technology
KPI	key performance indicator
OECD	Organisation for Economic Co-operation and Development
RBA	Reserve Bank of Australia
RMBS	Residential Mortgage-Backed Securities

