

treasury management guidelines

Borrowing and Investment Powers Act 1987

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Executive Summary

The purpose of the Treasury Management Guidelines (the Guidelines) is to set a framework to guide Government Business Enterprises (GBEs) in the development and management of their treasury function. The framework is designed to ensure consistency with:

- the debt and financial management objectives and risk tolerance of the State;
- the institutional and administrative structure for public sector treasury management; and
- the accountability framework that has been established under the GBE reform program.

Section 2 of these Guidelines outlines the legislative framework that governs the borrowing and investment powers of GBEs. Statutory authorities obtain their power to borrow and invest under the provisions of the *Borrowing and Investment Powers Act 1987* (BIP Act). These powers are granted by the Treasurer subject to the authority observing the Guidelines. Special arrangements apply to corporations law companies established as part of the GBE reform program, which require them to observe these Guidelines.

Section 3 outlines the Government's overall public sector debt management objectives which are:

- to ensure the State's net debt is maintained at a prudent level;
- to ensure access to financial markets;
- to minimise borrowing costs; and
- to ensure effective management of the State's financial risks.

The roles and responsibilities of the Department of Treasury and Finance (DTF), Treasury Corporation of Victoria (TCV) and GBEs in achieving these objectives are explained in Section 4. DTF is primarily responsible for ensuring that the Government's objectives are achieved by setting guidelines and recommending borrowing and investment powers to apply to GBEs. TCV is responsible for ensuring that the State's funding and other financial market requirements are achieved and to provide financial products and other services which meet the funding and risk management needs of its clients. The Boards of GBEs are responsible for determining their own funding needs and managing the risks associated with their business. By dealing through TCV, funding, financial transactions and market risks faced by GBEs are reduced, allowing GBEs to focus on their core business risks.

In Section 5, the Guidelines are outlined. The objective of the Guidelines is to ensure that the Boards of GBEs are adopting treasury policies that are consistent with the Government's objectives and which ensure that financial risks of the GBEs are effectively managed. Under the Guidelines, DTF formally notes treasury policies that are approved by GBE Boards. Section 5.1 provides an outline as to what should be contained in a treasury policy for those GBEs that choose to develop their own business specific policy document. Section 5.2 contains the recommended approach for those GBEs that have not developed a business specific treasury management policy and also to smaller GBEs that do not have sufficiently sophisticated treasury operations to warrant the development of a business specific policy.

Once treasury management policies are approved by the GBE Board, it is essential that the Board is satisfied that the organisation is in fact operating within the approved limits and policies contained in the policy document. Section 7 outlines a compliance monitoring framework including the requirement that GBEs certify to DTF on an annual basis that the organisation is operating within the approved treasury policy parameters.

1 Purpose

The purpose of these Guidelines is to set a framework to guide GBEs in the development and management of their treasury function. By working within the framework, the Treasurer can be assured that GBE treasury operations are consistent with:

- the overall debt and financial management objectives of the State;
- the institutional and administrative structure for the treasury management of borrowings and investments in Victoria;
- the accountabilities and management framework under the GBE reform program implemented by the Government; and
- the identification, measurement and prudent management of the GBEs financial risks.

The issue of treasury risk management is one of great importance in the wider financial community. The Australian Society of Certified Practising Accountants has issued a handbook entitled 'Understanding and Managing Financial Risk' which outlines the relevant issues in treasury risk management. This handbook is a practical guide that can be used in the development of a treasury policy document and the principles and concepts contained in the handbook have been incorporated into these Guidelines.

These Guidelines apply to Public Trading Enterprises whose power to borrow or invest is governed by the BIP Act. These Guidelines do not apply to Public Financial Enterprises operating under the BIP Act which are subject to separate prudential frameworks. State owned corporations law companies established during the recent industry reform are covered by these Guidelines. Although the BIP Act does not directly apply to these companies, the Treasurer has directed that they observe a framework similar to the BIP Act including observance of these Guidelines. Schedule 1 provides details of the source of borrowing and investment powers for individual GBEs.

These Guidelines replace the Treasury Management Guidelines issued by DTF in March 2000. Over the past decade there have been significant developments in the Government's approach to treasury management issues, particularly through the centralisation of the State's exposure to financial markets by the establishment and promotion of the Treasury Corporation of Victoria (TCV) as the State's centralised treasury operation.

For the purpose of these Guidelines, a distinction has been made between major and smaller GBEs. Major GBEs are defined as those GBEs with gross debt or investments equal to or greater than \$20 million, and smaller GBEs are defined as those GBEs having gross debt or investments below \$20 million. The requirements in relation to these Guidelines will differ depending upon the classification of the GBE and are further explained in Section 5.

Major GBEs are expected to develop a business specific treasury policy document which addresses the financial risks outlined in Section 4.3 of these Guidelines. Smaller GBEs are given an option to either adopt their own business specific treasury policies approved by their Board, or alternatively, to operate within the recommended limits specified in these Guidelines (Section 5.2).

Once developed, the policy document is required to be submitted to DTF for comment prior to obtaining Board approval. Following Board approval, the treasury policy document should be forwarded to DTF for formal noting, together with a copy of the Board minute documenting the Board approval.

2 Administrative Framework

2.1 *Borrowing and Investment Powers Act*

The purpose of the BIP Act is to provide statutory authorities with the power to borrow and invest in a wide range of financial products and to access the financial arrangements required to effectively manage their debt and investment portfolios.

There are a range of powers available under the BIP Act including:

| | |
|------------|--|
| Section 5 | Overdraft in Australia; |
| Section 8 | Financial accommodation in Australia; |
| Section 9 | Financial accommodation within or outside Australia; |
| Section 10 | Financial leases; |
| Section 11 | Financial arrangements (derivatives) and; |
| Section 20 | Investment powers. |

The specific powers available to individual statutory authorities are specified in Schedule 1 of the BIP Act. The BIP Act provides these powers subject to the approval of the Treasurer and in the case of investment powers, the Treasurer and the Governor in Council. The powers granted to corporations law companies formed as part of the GBE reform process are based on the BIP framework.

The specific financial arrangement (derivatives) and investment powers granted to GBEs are listed in the Governor in Council and Treasurer's approval rather than the BIP Act.

The powers granted by the Treasurer are tailored to the requirements of the individual GBEs ensuring that they are entering into financial transactions that are appropriate to their businesses.

All financial accommodation and financial arrangements subject to a Government guarantee are required to be transacted through TCV, other than bank overdrafts (to cover overnight requirements) and specifically exempted transactions. No general approvals are granted to enter into structured transactions including finance leases and accordingly specific approval for individual transactions must be sought from the Treasurer.

Borrowing and investment powers are granted to GBEs on the basis that they observe these Guidelines.

2.2 Borrowing Powers

The BIP Act framework operates on an annual cycle. Each year in June, the Treasurer approves the borrowing requirements and the borrowing powers for each GBE operating under the BIP Act for the following financial year. The borrowing requirements should be consistent with business and corporate plans approved by the Government which in turn will ensure that the level of borrowings for each GBE is consistent with the State's aggregate financial planning and obligations to the Australian Loan Council.

In order to obtain the Treasurer's approval for the annual borrowing program and borrowing powers of GBEs, DTF will survey GBE's borrowing requirements for the

upcoming financial year in a format consistent with Schedule 2, in April / May each year. The Treasurer's approval will be in the following form:

- New Financial Accommodation;
- Refinancing of Financial Accommodation (maturing and non-maturing);
- Temporary Purpose Borrowings; and
- Overdraft requirements.

Approval for the overdraft will be given on an ongoing basis up to an approved limit. Approval for the refinancing of debt will also be on an ongoing basis as required. Borrowing approvals will be given on the understanding that any debt repayments specified in the borrowing approval request will be achieved. This will ensure consistency with the State's Loan Council Allocation.

Borrowing powers granted to GBEs under the BIP Act are administered by the Commercial & Infrastructure Risk Management (CIRM) Group of DTF. Schedule 3 provides a pro-forma of the standard borrowing approvals that are granted to GBEs

Queries in relation to borrowing powers and approvals should be addressed to:

Assistant Director, Commercial & Infrastructure Risk Management Group
Department of Treasury and Finance
Level 5, 1 Treasury Place
Melbourne VIC 3002
Tel: 9651 0923
Fax: 9651 5211

2.3 Investment and Financial Arrangement (Derivative) Powers

In order for GBEs to manage surplus funds and financial risks, investment powers and financial arrangement (derivative) powers are granted by the Treasurer. Investment powers which are approved by the Governor In Council and the Treasurer provide GBEs with a list of instruments in which the GBEs are authorised to invest in. The list of approved instruments will depend upon the nature of the organisation and the level of investments currently held and anticipated in the future.

GBEs are encouraged to apply surplus funds to the repayment of debt rather than holding surplus funds as investments to ensure GBEs achieve lower borrowing costs and minimise interest rate risk. Such a policy may also assist GBEs in achieving optimal gearing and target capital structures.

Financial arrangement (derivative) powers approved by the Treasurer are granted to GBEs to ensure that the assets and liabilities of an organisation are effectively managed and protected against financial risks. The financial arrangements (derivative) powers granted to a GBE are dependant upon the nature of the organisation, the existing assets and liabilities, expected assets and liabilities and the type of exposures to be managed. DTF's preference is for GBEs to transact using the physical market rather than derivatives as it allows for greater transparency, less ongoing management effort and remains consistent with the conservative risk philosophy of the State. Schedule 4 provides a pro-forma of the standard financial arrangement (derivative) powers that are granted to GBEs.

Investment powers and financial arrangement (derivatives) powers are administered by the CIRM Group in DTF. Your organisation will need to provide information to CIRM on the

type of powers you wish to be granted including a business case with supporting information such as size and maturity profile of your debt and investment portfolios. Schedule 5 provides a pro-forma of the investment powers which DTF will be recommending to the Treasurer as the standard investment powers to be granted to all GBEs.

Requests for specific powers should be addressed to:

Assistant Director, Commercial & Infrastructure Risk Management Group
Department of Treasury and Finance
Level 5, 1 Treasury Place
Melbourne VIC 3002
Tel: 9651 0923
Fax: 9651 5211

3 Public Sector Debt Management Objectives

The Government's overall debt management objectives for the State are as follows:

- (a) Ensure the State's net debt is maintained at a prudent level;
- (b) Ensure access to financial markets;
- (c) Minimise borrowing costs; and
- (d) Manage effectively the State's financial risks.

Schedule 6 provides a more detailed description of the government's debt management objectives.

The broad approach to the management of the State's financial risks underlying these Guidelines is firstly to minimise and control financial risks by managing funding and financial market risks centrally and secondly to ensure that effective policies and procedures are in place to hedge or manage those risks that remain in individual GBEs.

4 Roles and Responsibilities

4.1 Department of Treasury and Finance (DTF)

DTF is responsible for ensuring that the Government's objectives in relation to treasury management are being achieved. A key part of this role is to set guidelines to ensure that GBEs are effectively managing their treasury functions and that the associated risks are being monitored and reported.

DTF is also responsible for providing advice to the Treasurer in relation to treasury management issues affecting the State public sector including making recommendations in relation to the borrowing and investment powers of GBEs.

Section 5 details further the roles and responsibilities of DTF.

4.2 Treasury Corporation of Victoria (TCV)

TCV was established in January 1993 as the centralised treasury for the State. Part of its charter is to ensure that the State sources funds at the lowest possible cost and effectively manages the financial risks associated with the public sector debt.

Following the establishment of TCV, the borrowing powers of all major GBEs subject to the BIP Act were amended to require that all future borrowings, with the exception of bank overdrafts, be undertaken through TCV. The *Treasury Corporation of Victoria (Debt Centralisation) (Amendment) Act* was passed in 1994 and established mechanisms for the existing debt of the larger GBEs to be progressively novated to TCV. This has enabled the State to benefit from economies of scale in TCV dealing with financial markets on behalf of the State.

Centralisation has minimised the financial risks of the State by containing the management of funding and financial market risk to TCV, leaving TCV's clients to concentrate on their core business activities. From 1 July 1995, the borrowing powers of all GBEs operating under the BIP Act, except those specifically exempted or without the benefit of a Government guarantee, have been amended to require that all financial arrangements (derivatives) be undertaken through TCV.

In fulfilling its role as the State's central treasury, TCV has the following obligations to GBEs:

- (a) to ensure that the funding requirements of GBEs are met;
- (b) to ensure that a sufficient range of financial products are available to meet the reasonable risk management needs of GBEs;
- (c) to ensure that financial products are priced consistent with a commercial and independent pricing policy; and
- (d) to provide treasury management and financial market advisory services which meet the needs of GBEs.

TCV is able to offer GBEs other financial services such as advice in the development of a treasury management policy and the outsourcing of treasury operations, permitting GBEs to achieve operational efficiencies and effective segregation of duties. TCV is DTF's preferred provider of treasury services for GBEs and is contracted by DTF to provide treasury accounting and reporting, treasury systems support and risk management advice

in relation to the Budget Sector Debt Portfolio which comprises the borrowings that have been raised to fund the state budget.

Requests for further information on TCV's products, services, roles and responsibilities, in relation to these Guidelines, should be directed to:

Treasury Client Services
Treasury Corporation of Victoria
Level 12, 1 Collins Street
Melbourne VIC 3000
Tel: 9651 4800
Fax: 9651 4880

4.3 Government Business Enterprises (GBEs)

Subject to these Guidelines and any other constraints, the responsibility for the management of the borrowings, investments and financial risk of GBEs lies with its Board. As the business of each authority/company is different, the Board is in the best position to understand the nature of their business and the resulting financial risks. In order to ensure that these risks are effectively managed, it is essential that the GBE Boards approve treasury policies and procedures which ensure that financial risks are prudently managed.

The nature of the major financial risks faced by GBEs are as follows:

(a) Interest Rate Risk

While TCV is responsible for managing the funding and financial market risk of the State, GBEs are responsible for the management of interest rate risk on their borrowings. Interest rate risk is the risk to earnings or capital arising from movements in interest rates. Interest rate risk faced by GBEs arises from:

- Differences between the timing of interest rate changes and the timing of cash flows (repricing risk);
- Changing rate relationship among different yield curves affecting activities (basis risk); and
- Changing interest rate relationship across maturities (yield curve risk).

Under the centralised model, basis risk and yield curve risk are managed by TCV.

Accordingly, GBEs must determine not only their funding and cash flow requirements, but also the type of borrowing, its term to maturity and interest rate risk management strategies. Interest rate risk may be mitigated by including a mix of fixed and floating rate debt with a range of maturities in the liability portfolio, and ensuring that new or replacement debt is added in a way that minimises any concentration of maturities or repricing dates.

TCV is responsible for providing financial products which meet the GBEs interest rate risk management needs. In addition, TCV is available to provide advice in relation to interest rate risk management and funding issues.

(b) Liquidity Risk

GBEs are ultimately responsible for the management of liquidity risk of their operations. Liquidity risk is the risk that a GBE does not have sufficient funds available to meet cash outflow commitments or faces a liquidity crisis brought on by unforeseen events. Liquidity risk consists of two main elements: funds risk and transaction risk.

- Funds risk is the risk that the GBE will not be able to meet its obligations as they fall due. This is a cash flow risk and it is managed by ensuring that adequate funds of the correct currency are available in the right places at the right time.
- Transaction risk is the risk that losses will arise from being exposed to an illiquid market. This ties very closely to market risk. If market rates become more volatile, transaction risk increases for the GBE if it tries to sell or buy in the market.

Under the Government's centralised treasury model, GBEs are responsible for managing the funds risk. TCV is responsible for managing the transaction risk and ensuring that funding lines are always available to their participating authorities. Consequently, GBEs should focus on managing liquidity risk through careful cash flow forecasting and developing an appropriate maturity profile to manage refinancing.

(c) Foreign Exchange Risk

Foreign exchange risk is the risk to profit or capital from a change in an investment's value due to a change in foreign exchange rates. Foreign exchange exposures fall into three types:

- Transaction exposures, resulting from normal operational business activities (trade purchases and sales, short term borrowings, etc);
- Translation exposures resulting from conversion of long term foreign currency assets and liabilities into Australian currency (capital items, etc); and
- Competitive exposures that may result from adopting a different approach to managing foreign exchange exposures from that taken by the organisation's competitors.

Under the centralised treasury model, GBEs are not expected to experience translation exposures as TCV only lends or accepts deposits in Australian dollars. Competitive exposures are also likely to be relatively minor because most GBEs are not subject to direct competition with the private sector.

The most significant currency exposures faced by GBEs are cash flow exposures. TCV offers a variety of specific market instruments to manage these exposures, including forward foreign exchange, currency swaps, currency futures and options, which lend themselves readily to transaction exposures.

The Boards of GBEs are responsible for developing policies and procedures in relation to foreign exchange risk which identify the foreign exchange exposure and recognise the Treasurer's requirement that these exposures be fully hedged. Policies should therefore specifically address how any exposure arising from trade transactions (payables/receivables) is to be managed so as to eliminate foreign exchange risk.

(d) Commodity Price Risk

Commodity price risk is the risk that a change in the price of a commodity that is a key input or output of a business will adversely affect its financial performance. It should be noted that many commodities have a foreign exchange component in their \$A price – for example oil, gold and sugar.

Commodity price risk may be controlled and managed by a range of financial instruments that include forward sales and purchases, futures, swaps, and options, which can be arranged through TCV.

The Boards of GBEs are responsible for developing appropriate policies and procedures for managing exposure to specific commodity risk where the Board considers these risks could have a material impact on the business.

(e) Credit Risk

Credit risk is the risk that another party in a transaction will fail to meet its financial obligations. Credit risk may include:

- Counterparty risk, which is the risk that the other party to a transaction will not meet its obligations as to timing or amount of settlement;
- Country/political/sovereign risk associated with government directives and policies that may affect the contractual performance of either party to the transaction, and that are generally beyond the direct control of the counterparty; and
- Settlement or delivery risk that may exist if there is a default in a single settlement or delivery, in which case all other exposures or positions with that counterparty will be closed out, thus establishing claims for transaction costs.

Credit risk arises from direct financial market activities and are largely carried by TCV. Policies in relation to credit risk should therefore be focused on non-TCV investments and non-financial market transactions.

(f) Operational Risk

Operational risk is the risk of losing money as a result of failures in systems, people or procedures in a given market. The focus of operational risk management within a treasury policy relates to the roles and responsibilities of staff employed in the treasury function and the related systems. Financial loss can occur in the treasury function due to mismanagement, error, fraud, omission, theft, unauthorised use of techniques and/or financial products, or inadequate information systems. Operational risks are managed by having an adequate control framework in place which limits authority, establishes supervision and separates sensitive duties. The management approach to operational risk should be to clearly define the roles and responsibilities of staff employed in the treasury section. The management of operational risk within the treasury function should be consistent with broader enterprise-wide risk management policies of the GBE.

5 Treasury Management Guidelines

The objectives of the Guidelines are to ensure that the financial risks of GBEs are being effectively managed and that the objectives and strategies adopted by GBEs are consistent with the overall objectives of the Government. The Guidelines seek to achieve this by providing a framework for GBE Boards to follow in the development of a treasury management policy.

Section 5.1 outlines a framework for GBEs developing business specific treasury policies. This section is generally for GBEs with gross debt or investments equal to or greater than \$20 million. Section 5.2 outlines a minimum standard of treasury management policy and limits for smaller GBEs (those with gross debt or investments smaller than \$20 million) that may not want to develop their own business specific treasury policy.

The Guidelines seek to provide a general framework for which GBEs are to work within. There are instances where GBEs may wish to discuss their individual circumstances or particular issues with DTF. Such instances may include:

- Discussion of initial borrowing program with DTF to ensure there is a strategy in place to achieve the desired spread of maturities across the term structure.
- Discussion of the impact that any regulatory regime may have on their borrowing requirements.
- Discussion on foreseeable breaches to the Treasury Policy.

GBEs are encouraged to develop treasury management policies that best address the financial risks of the GBE's business. The State has a conservative risk philosophy for the management of financial risks and is the stakeholder and guarantor of GBEs. It is appropriate therefore for Boards to develop treasury policies that are consistent with both the underlying business and the conservative risk philosophy of the State. In order to ensure that the State's treasury risks are being properly managed, powers granted to GBE's by the Treasurer under the BIP ACT are subject to the GBE observing the Guidelines.

DTF is responsible for ensuring that the Government's objectives in relation to treasury management are being achieved. In this role DTF reviews GBE treasury policies and advises on any areas where the policy may be inadequate or inconsistent with the State's overall objectives. GBEs are required to forward draft policies to DTF for comment prior to seeking Board approval. Following Board approval, the treasury policy document should be forwarded to DTF for formal noting, together with a copy of the Board minute documenting the Board approval.

Policy documents that have been formally noted by DTF will be forwarded to TCV. GBEs are encouraged to consult TCV in the development or review of their policies. This ensures that TCV is aware of GBE's treasury objectives and needs. GBEs are requested to advise DTF when submitting their policies if they do not wish their policy document to be automatically forwarded to TCV.

It is likely that GBEs will need to update their treasury policies from time to time. Any revision of the treasury policy document will need to be resubmitted to DTF for formal comment prior to obtaining Board approval. This ensures that DTF is provided with the latest treasury policy document and is in keeping with the compliance certification framework.

Draft policies for comment and policies being submitted for formal noting, including any queries in relation to these Guidelines, should be directed to:

Assistant Director, Financial Analysis and Superannuation
Department of Treasury and Finance
Level 9, 1 Macarthur Street
Melbourne VIC 3002
Tel: 9651 5305
Fax: 9651 2321

5.1 Guidelines for the development of business specific treasury management policies

In noting GBE treasury management policies, DTF will give consideration to the following:

- consistency with the GBE's financial accommodation, financial arrangement and investment powers approved by the Treasurer under the BIP Act;
- appropriateness of the GBE's policy and risk limits to its underlying financial risks;
- consistency with the State's overall risk philosophy and financial management objectives;
- consistency with the GBE's business and corporate plans approved by the Government;
- the maximum acceptable risk exposure of the State; and
- the ability of TCV to accommodate the transactions implicit in GBE's strategy.

The Guidelines provide a framework for GBEs to follow when developing their own treasury management policies. The Guidelines draw on the Australian Society of Certified Practising Accountants' publication 'Understanding and Managing Financial Risk'. As the framework reflects best practice for treasury management policies, DTF expect that all the items contained in the framework will be addressed in the policies developed by GBEs.

(a) Introduction and Overview

Treasury management policies set parameters for treasury risk management and must be consistent with the business' overall corporate policies, objectives and risk culture.

The treasury policy should include sufficient information to detail all aspects that are relevant to achieving the primary objectives of the treasury operation. Although this will vary from one organisation to another in its specific detail, it will be similar enough to apply to any organisation as far as its general structure is concerned and should cover:

- purpose of treasury policy
- scope of the treasury policy
- reference to other relevant documents
- maintenance of the treasury policy, the position responsible and the approval process for any change, including formal noting by DTF.

(b) Financial Objectives and Strategies

The policy should include a brief outline of the objectives of the treasury operation, including strategies developed to achieve those objectives. The risk tolerance of the Board should be reflected in the treasury's objectives and strategies.

(c) Roles and Responsibility Structure of Treasury

The policy document should contain information regarding the roles and responsibilities of the parties involved in the management, control and reporting of the organisation's financial risks. Typically the involved parties will be some or all of the following:

- Board;
- Chief Executive Officer;
- Chief Financial Officer;
- Treasury Committee; and
- Treasury Manager.

(d) Delegation of Authority

The delegation of authority from the Board level down through the organisation to the treasury, and also within the treasury, forms a vital part of both an organisation's structure and the treasury policy.

A listing of delegated authorities and discretionary limits (often held as an attachment to the policy) should detail specifically what transactions are delegated to whom, who should authorise them and what limits apply. It should be comprehensive in capturing all types of transactions that are subject to delegation.

(e) Financial Risk Recognition and Management

The financial risks (refer Section 4.3 for definitions) to be covered in the treasury policy include:

- interest rate risk (Refer Schedule 7 for recommended interest and refinancing risk limits);
- liquidity risk;
- foreign exchange risk;
- commodity price risk;
- credit risk; and
- operational risk.

For each of the financial risks it is important to provide a clear definition, details of the recognition, measurement, timing and objectives of risk management.

In developing financial risk management strategies, GBEs should give consideration to the following factors:

- projected cash flows of the business over the short to medium term;
- the life cycle of assets and the strategies for their replacement;
- the nature and structure of existing liabilities;
- the sensitivity of the GBEs cash flows to movements in economic variables, commodity prices and financial market variables e.g. interest rates, inflation rates and exchange rates; and

- the risk tolerance of the Board.

(f) Approved Financial Instruments

The treasury policy should include only those instruments which have been approved by the Board and the Treasurer of Victoria (under the BIP Act). For each category of approved financial instrument, the policy document should cover the following:

- maximum maturity for which instruments may be entered into;
- maximum amount per transaction; and
- list of approved counterparties.

(g) Use of Derivatives

The treasury policy should include guidelines for the use of derivatives, in particular:

- items which expose the organisation to risk and need to be hedged;
- approved instruments which are effective in reducing the exposures; and
- management reports to measure, monitor and control derivative activity including mark-to-market information on all open positions by instrument category.

The treasury policy should also include statements that:

- the instrument must be designed as a hedge at the time of entering into the instrument;
- the item must not already be effectively hedged by an off-setting risk;
- leveraging of transactions is not permitted; and
- trading activities in the context of transacting to create new or additional exposures are not permitted.

(h) Internal Controls and Systems

The treasury policy should detail procedures regarding:

- (i) the role of Internal Audit, including who carries out the internal audit, frequency of audits and to whom the results are conveyed.
- (ii) adequate operational policies that reasonably ensure that:
 - treasury management guidelines are not breached;
 - computer systems are appropriate and error free;
 - risks are being regularly identified, measured and evaluated;
 - appropriate segregation of duties; and
 - management policies and directives are being adhered to.
- (iii) reporting of breaches, including procedures to ensure that breaches are reported appropriately and internal controls amended if required. The policy should also record that DTF must be contacted verbally, and in writing, of any breaches of approved policy.

(i) Reporting to Board and Management

The policy should detail the frequency and contents of reports to management and the Board including the reporting of treasury activities and adherence to dealing limits.

(j) Annual Certification of Compliance

The policy should provide details on the annual certification of compliance required by DTF. The certificate (see Section 7 and Schedule 8 for a pro-forma) is to be signed by the Chairman of the Board and Chief Executive Officer and states that the organisation has been operating within the parameters specified in the treasury policy document.

5.2 Guidelines for GBEs without Board approved treasury management policies

GBEs that have not developed a business specific treasury management policy approved by the Board and formally noted by DTF are expected to operate within the treasury risk limits outlined in this section. If there are specific business needs to operate outside the limits in this section, the GBE is required to liaise with DTF.

These recommended Guidelines are more appropriate for smaller GBEs (those GBEs with gross debt or investments below \$20 million), who believe their treasury operations do not warrant a comprehensive treasury management framework to be developed. If these limits and policies are deemed appropriate, the Boards of GBEs are required to acknowledge and approve these limits and provide an annual compliance certificate to DTF as detailed in Section 7.

(a) Interest Rate and Refinancing Risk Profile

Volatility in interest expense will arise predominantly from floating rate loans therefore the proportion of total debt in the form of floating rate loans should be limited unless there are offsetting sensitivities in revenue. In addition, interest expense volatility can be further reduced by spreading maturities across the term structure. It is recommended that GBEs maintain a debt portfolio composition as follows:

| Term to maturity | Target % | Limits |
|------------------|----------|--------|
| 0 - 1 year* | 20% | 10-30% |
| 1 - 4 years | 35% | 20-50% |
| 4 - 8 years | 35% | 20-50% |
| 8 years and over | 10% | 0-20% |

* Loans maturing within 12 months and term loans with floating rate resets should be included in the 0 to 1 year period.

For GBEs with a small treasury function, interest rate risk should be managed primarily in the physical market by observing the target portfolio composition. It is expected that the use of financial arrangements (derivatives) for interest rate risk management will be limited. An exception is made for the management of large fixed rate loans as they approach maturity. In this case, TCV should be requested to provide appropriate financial arrangements (derivatives) to ensure that the refinancing risk remains within acceptable bounds.

The financial arrangements (derivatives) that can be used by a GBE for managing interest rate risk are identified in the financial arrangements powers approved by the Treasurer for each GBE (see Section 2.3).

Financial arrangements (derivatives) used to hedge interest rate exposures must be those identified in the Treasurer's approval. It is expected that financial arrangements (derivatives) are only undertaken by those people authorised to transact such instruments. Interest rate limit compliance reporting to the Board should be undertaken on a regular basis.

(b) Liquidity Risk

GBEs will need to maintain funding sources or have access to credit lines to be able to meet unexpected funding requirements. TCV is able to provide this source of short term funding. The recognition of liquidity risk is based on the regular identification and monitoring of the maturity profile of the organisation's liquid assets and liabilities together with anticipated cash flows. Regular forecasts should be prepared of future cash flows to effectively monitor the organisation's future funding requirements.

(c) Foreign Exchange Risk

GBEs should not maintain any foreign currency exposure. As TCV on-lends to participating authorities in Australian Dollars, no foreign currency exposure can arise from new borrowings. Foreign currency exposure from business operations should be identified and fully hedged once exposures are known and quantifiable. The financial arrangements (derivatives) that can be used by a GBE for managing foreign exchange risk are identified in the financial arrangement (derivatives) powers approved by the Treasurer for each GBE (see Section 2.3).

(d) Credit Risk

The majority of investment and risk management transactions are undertaken with TCV, therefore the major credit risk exposure of a GBE is to TCV which carries a credit rating equivalent to the State of Victoria.

Counterparty limits setting out the maximum exposure level to third parties should be established for all counterparties of the GBE. Any credit policy in relation to investments must be consistent with that of the investment approval granted under the BIP Act (see Section 2.3). These limits should state the maximum exposure level to each counterparty and the maximum maturity period for each financial instrument.

(e) Operational Risk

The low numbers of staff involved in a small treasury operation gives rise to risk of error or fraud resulting from inadequate segregation of duties. In this situation, internal or external auditors should be requested to report on this matter and if it is found that there is inadequate segregation of duties, compensating checks should be undertaken by management to minimise the risk of error or fraud.

In order to achieve operational efficiencies and effective segregation of duties, DTF encourages the outsourcing of treasury operations, such as risk management advice, treasury accounting and systems. TCV is DTF's preferred provider of these services.

(f) Commodity Price Risk

Commodity price risk is the risk that a change in the price of a commodity that is a key input or output of a business will adversely affect its financial performance. Given that commodity risk may play a small if not negligible role in the risks of many of the GBEs, the Board may not need to set any guidelines. If at any time, the GBE becomes exposed to commodity risk it should be immediately recognised and a management strategy developed.

(g) Annual Certification of Compliance

An annual certificate will need to be provided to DTF stating that the organisation is complying with the recommended risk limits outlined above. See Section 7 for further details regarding the annual certification of compliance.

(h) Reporting Policy Breaches

Should GBEs find themselves operating outside the Board approved treasury policy or the recommended limits, it is required that DTF be notified immediately verbally and in writing of the breach. The notification should outline an explanation of the breach including a strategy to correct the breach. Non-compliance with the Guidelines may result in GBEs having their borrowing and investment powers revoked and GBEs may be placed on a more onerous borrowing and investment approval process.

(i) Review of Treasury Policy

Once developed, GBEs are required to forward a draft of their treasury policies to DTF for comment prior to seeking Board approval. GBEs are encouraged to consult TCV in the development or review of their policies. Following Board approval, the treasury policy should be forwarded to DTF for formal noting, together with a copy of the Board minute documenting the Board's approval.

Policy documents that have been formally noted by DTF will be forwarded to TCV, unless DTF is notified otherwise.

It is likely that GBEs will need to update their treasury policies from time to time. Any revisions of the treasury policy document will need to be resubmitted to DTF for comment prior to obtaining Board approval. This ensures that DTF is provided with the latest treasury policy document and is in keeping with the compliance certification framework.

Draft policies for comment and policies being submitted for formal noting, including any queries in relation to the Guidelines, should be directed to:

Assistant Director,
Financial Analysis and Superannuation
Department of Treasury and Finance
Level 9, 1 Macarthur Street
Melbourne VIC 3002
Tel: 9651 5305
Fax: 9651 2321

6 Management of Investments

The management of investments is the responsibility of the individual GBEs. However, GBEs are encouraged to use any surplus investments to reduce their level of debt. From time to time a GBE may find itself in a position of having surplus investments with no debt. While it is not expected that a GBE would remain in a position of having surplus investments for any lengthy period of time, a GBE may be holding surplus investments pending future capital works. In such situations a GBE is encouraged to invest funds to match anticipated future cash flows. This will ensure that the invested funds are available when required and borrowings will not have to be made in the interim before investments become available. TCV are available to provide competitive and appropriate facilities to GBEs for the investment of surplus funds.

7 Compliance Monitoring Framework

Once treasury management policies are approved by the Board it is essential that the Board is satisfied that the organisation is in fact operating within the approved limits and policies contained in the policy document.

As the Board is not expected to be across the details of the day to day activities of the treasury operation, senior management must certify to the Board whether or not treasury activities comply with policies and procedures as approved by the Board on a regular basis. For organisations with significant treasury operations, this compliance reporting to the Board should be occurring on a monthly basis. It is also an important aspect in discharging the fiduciary and legal obligations of directors.

The compliance reporting to the Board should include:

- a summary of treasury activities over the period including reporting against approved limits and details of unrealised profits/losses on outstanding derivative positions;
- certification that all policies have been adhered to;
- details of areas, if any, where stated policies have been breached; and
- identification of the reasons for the occurrence of any breaches and what actions, if any, have been taken to rectify the breached situation.

Under the treasury management framework, the Chairman and CEO of GBEs are to certify to DTF on an annual basis that the Board is satisfied that the organisation is operating within the Board approved treasury management policies. Before this certification is given to DTF, the Board itself must be satisfied that the organisation is operating within the Board approved policies. The above compliance reporting framework allows the Board to make this judgement before it provides a certification of compliance to DTF.

Schedule 8 includes pro-formas of the annual compliance certificates applicable to GBEs operating under business specific policies and GBEs operating under the recommended limits contained in these Guidelines (Section 5.2).

Should GBEs find themselves operating outside the Board approved treasury policy or the recommended limits, it is required that DTF be notified immediately verbally and in writing of the breach. The notification should outline an explanation of the breach including a strategy to correct the breach. Non-compliance with the Guidelines may result in the GBEs having their borrowing and investment powers revoked and the GBE may be placed on a more onerous borrowing and investment approval process.

The Annual Certificate of Compliance is due one month after the end of the financial year and should be forwarded to:

Assistant Director, Financial Analysis and Superannuation
Department of Treasury and Finance
Level 9, 1 Macarthur Street
Melbourne VIC 3002

Tel: 9651 5305
Fax: 9651 2321

Schedule 1: GBEs under the *Borrowing and Investment Powers (BIP Act) 1987*

PUBLIC TRADING ENTERPRISES

Authority

Metropolitan Urban Water Businesses

- City West Water
- Melbourne Water
- South East Water
- Yarra Valley Water

Regional Water Businesses

- Barwon Water
- Central Highlands Water
- Coliban Water
- East Gippsland Water
- Gippsland Water
- Goulburn Valley Water
- Grampians Wimmera Mallee Water
- Lower Murray Water
- South Gippsland Water
- Wannon Water
- Western Water
- Westernport Water

Rural Water Businesses

- First Mildura Irrigation Trust
- Goulburn-Murray Water
- Southern Rural Water

Public Financial Corporations

- Rural Finance Corporation of Victoria
- Transport Accident Commission
- Treasury Corporation of Victoria
- Victorian Funds Management Corporation
- Victorian Managed Insurance Authority
- Victorian Workcover Authority

Energy Businesses

- State Electricity Commission of Victoria
- VENCorp

Alpine Resort Businesses

- Falls Creek Alpine Resort Management Board
- Lake Mountain Alpine Resort Management Board
- Mt Baw Baw Alpine Resort Management Board
- Mt Buller Alpine Resort Management Board
- Mt Hotham Alpine Report Management Board

Other Businesses

- Australian Grand Prix Corporation
- Country Fire Authority
- Dairy Food Safety Victoria
- Director of Housing
- Fed Square Pty Ltd
- Melbourne and Olympic Parks Trust
- Melbourne Market Authority

Port of Melbourne Corporation
Queen Victoria Women's Centre Trust
State Sport Centres Trust
V/Line Passenger Corporation
VicForests
Victorian Regional Channels Authority Victorian Rail Track
Victorian Urban Development Authority (VicUrban)
Zoological Parks and Gardens Board of Victoria

Schedule 2: Pro Forma Annual Borrowing Approval Request

ANNUAL BORROWING PROGRAM 20XX-XX

OF: (participating authority name)
 AS AT: (preparation date)
 CONTACT NAME: (name of personnel)
 CONTACT NUMBER: (phone number of personnel)

TABLE A ANNUAL BORROWING APPROVAL REQUEST

| | Type of Financial Accommodation | Capital Proceeds (\$ million) |
|-----|---|----------------------------------|
| (a) | New Financial Accommodation | |
| (b) | Refinancing of Maturing Financial Accommodation | |
| (d) | Temporary Purpose Financial Accommodation | |
| (e) | Bank Overdraft | |
| | TOTAL | |

TABLE B INVESTMENTS

| Investments | Estimated 30 June 2007 | Estimated 30 June 2008 |
|--------------|------------------------|------------------------|
| | (\$ million) | |
| TCV | | |
| Other | | |
| TOTAL | | |

TABLE C DEBT MATURITY PROFILE

| Term to Maturity (years) | Estimated 30 June 2007 | Estimated 30 June 2008 |
|--------------------------|------------------------|------------------------|
| | (\$ million) | |
| 0 to 1 | | |
| 1 to 2 | | |
| 2 to 3 | | |
| 3 to 4 | | |
| 4 to 5 | | |
| 5 to 6 | | |
| 6 to 7 | | |
| 7 to 8 | | |
| 8 to 9 | | |
| 9 to 10 | | |
| Beyond 10 | | |
| TOTAL | | |

ANNUAL BORROWING PROGRAM 20XX

OF: (participating authority name)

**TABLE D
MONTHLY CASHFLOW ESTIMATE**

| | Net Cashflow except Finance flows | PLUS | LESS | LESS | Net Cashflow |
|--------------|--------------------------------------|------------------------|------------------|--------------------------------|--------------|
| | | Inflow from Borrowings | Interest Expense | Outflow from Debt Repayment | |
| | | (\$ million) | | | |
| Jul-07 | | | | | |
| Aug-07 | | | | | |
| Sep-07 | | | | | |
| Oct-07 | | | | | |
| Nov-07 | | | | | |
| Dec-07 | | | | | |
| Jan-08 | | | | | |
| Feb-08 | | | | | |
| Mar-08 | | | | | |
| Apr-08 | | | | | |
| May-08 | | | | | |
| Jun-08 | | | | | |
| TOTAL | | | | | |

Schedule 3: Pro-Forma Borrowing Powers

Borrowing and Investment Powers Act 1987

APPROVAL OF THE TREASURER OF THE STATE OF VICTORIA

FOR AUTHORITY

**NEW FINANCIAL ACCOMMODATION AND TEMPORARY
PURPOSE FINANCIAL ACCOMMODATION**

I, JOHN BRUMBY MP, Treasurer of Victoria,

- (1) approve the Authority, obtaining financial accommodation pursuant to section 8 of the *Borrowing and Investment Powers Act 1987* ("the Act") by way of financial accommodation from the Treasury Corporation of Victoria subject to the terms and conditions set out in the Schedule which is attached to this approval.
- (2) confirm that the financial accommodation obtained by the Authority under this approval has the benefit of the guarantee contained in section 13(2) of the Act.

Dated :

JOHN BRUMBY MP
Treasurer

SCHEDULE TO APPROVAL FOR AUTHORITY

FOR

NEW FINANCIAL ACCOMMODATION AND TEMPORARY PURPOSE FINANCIAL ACCOMMODATION

Terms and Conditions

Application

1. This approval applies to:
 - new financial accommodation which is obtained by the Authority;
 - temporary purpose financial accommodation to be repaid prior to 30 June 20XX.

Effect

2. This approval has effect for the period from 1 July 20XX to 30 June 20XX (inclusive).

Approval Limit

3. The Authority must not obtain financial accommodation under this approval if at that time the total liability of the Authority in respect of financial accommodation obtained under this approval, would then exceed (in amounts equivalent to Australian dollars):
 - (a) with respect to new financial accommodation, \$X million;
 - (b) with respect to temporary purpose financial accommodation \$X million.
4. The Authority, in determining its liability in respect of financial accommodation obtained under this approval, must include the following amounts:
 - (a) the discounted principal proceeds of each bill of exchange drawn and each promissory note and security issued by it under this approval which has not matured; and
 - (b) the discounted principal proceeds (capital proceeds)* from any discount or premium loan which has not matured under this approval and the principal amount outstanding on each other loan.

Evidence of Compliance

5. It will be sufficient for Treasury Corporation of Victoria to be satisfied as to compliance with this approval if the Treasurer of the Authority provides a certificate confirming that all terms and conditions of this approval have been complied with.

* Capital proceeds is equivalent to market value less accrued interest.

Borrowing and Investment Powers Act 1987

APPROVAL OF THE TREASURER OF THE STATE OF VICTORIA

FOR AUTHORITY

OVERDRAFT AND REFINANCING FINANCIAL ACCOMMODATION

I, JOHN BRUMBY MP, Treasurer of Victoria,

- (1) approve the Authority, obtaining financial accommodation:
 - pursuant to section 5 of the *Borrowing and Investment Powers Act 1987* (the 'Act') by obtaining a financial benefit or assistance to obtain a financial benefit by way of overdraft of account at any bank or any other financial institution in Australia;
 - pursuant to section 8 of the Act by way of financial accommodation from the Treasury Corporation of Victoria for the purposes of refinancing maturing financial accommodation previously obtained by the Authority;
 - subject to the terms and conditions in the Schedule to this approval.
- (2) confirm that the financial accommodation obtained by the Authority under this approval has the benefit of the guarantee contained in section 13(2) of the Act.

Dated :

JOHN BRUMBY MP

Treasurer

SCHEDULE TO APPROVAL FOR AUTHORITY
FOR
OVERDRAFT AND REFINANCING FINANCIAL ACCOMMODATION

Terms and Conditions

Effect

1. This Approval has effect and applies from and including 1 July 20XX until withdrawn by written notice given by the Treasurer to the Authority.

Approval Limits

2. The Authority must not obtain financial accommodation under this approval if at that time the total liability of the Authority in respect of financial accommodation obtained under this approval, would then exceed (in amounts equivalent to Australian dollars):
 - (a) with respect to financial accommodation obtained by way of overdraft on domestic banks within or outside Australia, \$X;
 - (b) with respect to financial accommodation obtained to refinance financial accommodation, without limitation.
3. The Authority, in determining its liability in respect of financial accommodation obtained under this approval, must include the following amounts:
 - (a) the amount drawn down under each overdraft facility.
 - (b) the discounted principal proceeds of each bill of exchange drawn and each promissory note and security issued by it under this approval which has not matured; and
 - (c) the discounted principal proceeds (capital proceeds)* from any discount or premium loan which has not matured under this approval and the principal amount outstanding on each other loan.

Evidence of Compliance

4. It will be sufficient for a lender to be satisfied as to compliance with this condition if the Treasurer of the Authority provides a certificate confirming that all terms and conditions of this approval have been complied with.

* Capital proceeds is equivalent to market value less accrued interest.

Schedule 4: Pro-Forma Financial Arrangement (Derivative) Powers

BORROWING AND INVESTMENT POWERS ACT 1987

APPROVAL OF THE TREASURER OF VICTORIA

FINANCIAL ARRANGEMENTS

Pursuant to section 11(a) of the *Borrowing and Investment Powers Act 1987* ('the Act'), I, JOHN BRUMBY MP, Treasurer of the State of Victoria, hereby approve the Authority entering into and performing:

1. The following financial arrangements with the Treasury Corporation of Victoria:
 - Vic Hot Stock Forward contracts;
 - Vic Interest Rate Forward contracts;
 - Vic Switch Agreements;
 - Vic Swap Agreements;
 - options on the above arrangements;
 - any combination of the above;
 - options for the purchase or sale of securities issued by the Treasury Corporation of Victoria; and
 - forward rate agreements.

to hedge or protect the value of the Authority's liabilities in respect of financial accommodation against movements in interest rates in accordance with the Authority's Treasury Policy Statement.

2. The following financial arrangements with Treasury Corporation of Victoria:
 - forward foreign exchange transactions; and
 - spot foreign exchange transactions.

to hedge or protect the value of the Authority's assets or liabilities, or prospective assets or liabilities in respect of an underlying exposure to movements in currency rates in accordance with the Authority's Treasury Policy Statement.

This approval has effect and applies to all financial arrangements entered into by the Authority as from the date of this approval.

Dated:

JOHN BRUMBY MP

Treasurer

Schedule 5: Pro-Forma Investment Powers

BORROWING AND INVESTMENT POWERS ACT 1987

INVESTMENT POWERS

ORDER IN COUNCIL

The Governor in Council under section 20 of the *Borrowing and Investment Powers Act 1987*, on the recommendation of the Treasurer, hereby approves the Authority investing its monies in the following manner:

1. On deposit with:
 - (a) a bank;
 - (b) a money market corporation, in Australia, which deposit is secured by a mortgage of approved securities of a market value at the time of the deposit of not less than the amount of the deposit;
 - (c) the Treasury Corporation of Victoria.
2. In the purchase of, or subscription for:
 - (a) any securities of, or guaranteed by:
 - (i) the Commonwealth;
 - (ii) a State or Territory of the Commonwealth;
 - (b) any securities of a public body constituted by or under a law of the Commonwealth, or of a State or Territory of the Commonwealth;
 - (c) any certificate of deposit issued by a bank whether negotiable, convertible or otherwise;
 - (d) any bill of exchange that has been accepted or endorsed by a bank;

Unless a contrary intention appears:

'Approved securities' means:

- (a) securities of, or guarantees by, the Commonwealth of a State or Territory of the Commonwealth;
- (b) securities of a public body, constituted by or under a law of the Commonwealth, or of a State or Territory of the Commonwealth;
- (c) bills of exchange that have been accepted or endorsed by a bank;
- (d) certificates of deposit issued by a bank whether negotiable, convertible or not.

"Bank" means:

- (a) a bank within the meaning of the *Banking Act 1959* of the Commonwealth;

(b) a bank established by or under a law of a State or Territory of the Commonwealth.

'Commonwealth' means the Commonwealth of Australia.

'Money Market Corporation' means a corporation registered as a money market corporation under the *Financial Corporations Act 1974* of the Commonwealth.

'Securities' includes stocks, debentures, bonds, notes, promissory notes and other securities whether constituting a charge on property or not, but does not include bills of exchange.

References to a statute include references to any amendment or consideration of or substitution for the statute.

Dated:

Responsible Minister

JOHN BRUMBY MP
Treasurer

Clerk of the Executive Council

Schedule 6: Public Sector Debt Management Objectives

The Government's overall debt management objectives are as follows:

(a) To Ensure the State's Net Debt is Maintained at a Prudent Level

The credit rating of the State and its borrowing costs are impacted by the level of the State's net debt and, in particular, its level relative to that of other States. The Government is therefore concerned to ensure that the current low level of State net debt is maintained.

In order to achieve this objective and to ensure that individual GBEs maintain appropriate levels of gearing, target capital structures and target maturity profiles are required to be nominated in GBE business plans which, in turn, are approved by the Treasurer. These targets form the basis of the annual new money borrowings and maturities for each GBE approved under the BIP Act.

(b) Ensure Access to Financial Markets

To enable the State and its GBEs to carry out their business operations, it is essential that the State has access to borrowings at reasonable cost, as and when required. Centralisation of public sector borrowings through TCV assists this objective.

(c) Minimise Borrowing Costs

Interest is a major cost to the State and many of its GBEs. The borrowing costs of the State can best be minimised through a co-ordinated approach to fund raising which involves the following elements:

(i) *Coordinated Development of the State's borrowing program.*

At any point in time not all GBEs will need to borrow. Some may have temporary or permanent cash surpluses to be invested. The States borrowing requirement, and as a result its borrowing cost, can be minimised if there is effective offsetting of investments and borrowings of State authorities through a central borrowing authority (TCV).

(ii) *Financial Market Development.*

Borrowing costs can be lowered by developing efficient access to appropriate financial markets. Such access is aided by centralising of the funding function as investors are attracted to securities with liquid secondary markets where they can be traded without the risk of substantial capital loss and are willing to pay a premium to those borrowers that can respond to this demand. Liquidity premiums can best be achieved by establishing lines of stock with large volumes on issue across all maturities.

(iii) *Financial Product Development.*

Investors are attracted to a variety of securities including fixed interest, floating rate and inflation indexed securities such as capital indexed bonds and indexed annuities. The number of potential investors in Victorian government securities can be increased and therefore the State's overall borrowing cost minimised by TCV's ability to offer securities that are attractive to a wide range of investors.

(d) Manage Effectively the State's Financial Risks.

The major financial risks that the State faces in relation to its treasury activities are funding related risks, financial market related risks and business related risks. Funding risk is the potential for loss resulting from the structure and timing of the State's borrowing requirements. The major risks in this category are liquidity and refinancing risk. Financial market risks arise primarily from the process of transacting directly with financial markets. These risks include foreign currency risk associated with borrowings, credit risk and operational risk. Business related risks arise from the operations of the business and are unique to that business. Business related risks include interest rate risk, foreign currency risk arising from contracts and commodity price risk.

Schedule 7: Recommended Interest Rate and Refinancing Risk Limits for GBEs Developing Their Own Treasury Policies

DTF has developed a set of recommended interest rate limits which are based on the limits used for the Budget Sector Debt Portfolio and incorporate the conservative risk philosophy of the Treasurer.

These limits include an even spread of maturities, providing relative certainty in borrowing costs and ensuring that a small proportion of debt is subject to repricing in any one period.

The limits (shown below) may be a useful guide to major GBEs in the development of their treasury policies.

Section 5.2 outlines broader limits applicable for smaller GBEs, given their lower levels of debt.

Interest rate risk limits

| Term to maturity | Target % | Limits |
|-------------------------|-----------------|---------------|
| 0 - 1 year* | 10% | 0-20% |
| 1 - 3 years | 16% | 7-21% |
| 3 - 5 years | 16% | 7-21% |
| 5 - 7 years | 16% | 7-21% |
| 7 - 9 years | 16% | 7-21% |
| 9 - 11 years | 16% | 7-21% |
| 11 years and over | 10% | 0-20% |

*Loans maturing within 12 months and term loans with floating rate resets should be included in the 0 to 1 year period.

Schedule 8: Pro Forma Annual Certification of Compliance

For GBEs with business specific policies

**TREASURY MANAGEMENT GUIDELINES
ANNUAL CERTIFICATION OF COMPLIANCE
(Name of GBE)**

For the financial year ended _____

I, *(Name of Chairperson)*, the Chairperson on behalf of the Board and I, *(Name of Chief Executive Officer)*, the Chief Executive Officer of *(Name of GBE)* (the 'organisation') certify as follows :

- (a) the organisation has in place a Board approved Treasury Management Policy that has been formally noted by the Department of Treasury and Finance;
- (b) the organisation has in place a compliance procedure which includes, as a minimum, an annual audit of the treasury operations that reports to either the Audit Committee or the Board of the organisation. This report attests that the Board approved Treasury Management Policy is being adhered to and that the internal controls of the organisation are appropriate and have not been breached; and
- (c) the Board and the Chief Executive Officer of the organisation are satisfied to the best of their knowledge that the organisation has complied with the Treasury Management Policy as approved by the Board and formally noted by the Department of Treasury and Finance.

DATED : _____

Chairperson
(Name of GBE)

Chief Executive Officer
(Name of GBE)

For GBEs operating under recommended Guidelines

**TREASURY MANAGEMENT GUIDELINES
ANNUAL CERTIFICATION OF COMPLIANCE**

(Name of GBE)

For the financial year ended _____

I, *(Name of Chairperson)*, the Chairperson on behalf of the Board and I, *(Name of Chief Executive Officer)*, the Chief Executive Officer of *(Name of GBE)* (the 'organisation') certify as follows :

- (a) the organisation has in place a compliance procedure which includes, as a minimum, an annual audit of the treasury operations that reports to either the Audit Committee or the Board of the organisation. This report attests that the organisation is operating within the parameters of the Treasury Management Guidelines issued by the Department of Treasury and Finance and that the internal controls of the organisation are appropriate and have not been breached; and
- (b) the Board and Chief Executive Officer of the organisation are satisfied to the best of their knowledge that the organisation has complied with the Treasury Management Guidelines issued by the Department of Treasury and Finance.

DATED : _____

Chairperson
(Name of GBE)

Chief Executive Officer
(Name of GBE)