Treasurer’s Policy Statement

Centralised treasury and investment policy

## Background

The objectives of this policy are to ensure that treasury risks are effectively identified, assessed, monitored and managed by public sector agencies, and that the strategies adopted by public sector agencies are consistent with the overall objectives of the Government.

The State has a conservative philosophy for the management of treasury risks and accordingly, public sector agencies are encouraged to develop specific measures that best address the borrowing and investment risks of their business.

As part of the State’s prudent approach to financial risk management, the Government has established the Treasury Corporation of Victoria (‘TCV’) and Victorian Funds Management Corporation (‘VFMC’) as centralised agencies to manage the borrowing, investing and financial market activities of public sector entities. A key reason for taking this action is so that the Government has assurance that Government agencies are dealing with bodies that are owned by the State and therefore have a credit rating equal to that of the State. In order to minimise the State’s overall financial risk it is important that the State’s borrowing and investment activities be undertaken through these agencies.

## Policy

Public sector agencies are required to undertake all borrowings, investments and financial arrangements with TCV or VFMC subject to the following exceptions:

* where the investment is cash on hand in a transactional bank account with an Authorised Deposit-taking Institution (ADI);
* where the financial arrangement is a foreign currency hedging transaction of less than $1 000 000 undertaken with an ADI;
* where a Public Sector Agency is operating a bank overdraft as part of its normal transactional banking operations;
* where amounts invested by the Public Sector Agency with an ADI, excluding cash on hand in a transactional bank account, do not in aggregate exceed $2 000 000;
* where the Public Sector Agency holds money, other than money held on trust for the State or a public body, invested pursuant to a statutory function to hold it on trust for a known beneficiary; or
* where, following consultation with the Public Sector Agency’s portfolio Minister, the Treasurer has in writing approved otherwise.

A public body must maintain a Treasury Policy if it has borrowings and cash and interest-earning investments such as term deposits.

A public body must maintain an Investment Policy if it invests with VFMC or seeks to maintain any investments other than transactional cash funds.

This policy applies to all Victorian public sector agencies. In order that, as far as possible, the policy has legal force, the Minister for Finance has issued a Direction on Treasury Risk Management under the *Financial Management Act 1994* (direction number 3.7.2.3) that deals with the same areas as this policy.

For further information see the Standing Directions for the Minister for Finance 2016 page on the DTF website.

## Procedure

Relevant public sector agencies must—

1. conduct an annual review of their obligations under this policy; and
2. identify and rectify any failure or deficiency in complying with this policy.

Any investments held by Government agencies outside the centralised framework, apart from the above exemptions, must be approved by the Treasurer and reported to the Department of Treasury and Finance annually.

Agency Chief Financial Officers must, ‘on request’, make available treasury and investment policies to the Portfolio Department and/or DTF for review.

## Benefits to the State from the Policy

TCV manages borrowings and short-term deposits, facilitates financial arrangements to hedge, protect or manage the value of assets and liabilities, and executes the associated transactions. VFMC manages long-term investments, implements diversified investment strategies, and executes the associated transactions. These centralised arrangements create significant benefits as they:

* provide the capacity to net the State’s borrowings and investments prior to approaching financial markets, thus reducing its overall borrowing program;
* create economies of scale which reduces execution and administration costs;
* enable the State’s overall counterparty risk to be monitored and managed;
* improve prudential oversight of the State’s overall borrowings and investments; and
* allow the concentration of appropriate financing and investment expertise, rather than being spread thinly across a range of public sector agencies.

Under the centralised framework, all borrowings, short-term investments and financial arrangements should be dealt through TCV who can advise on appropriate funding, hedging and investing structures taking into account the financial requirements and risk appetite of the public sector agency.

Where it is clear that an entity has a long-term investment need, the entity should approach VFMC directly. Relevant approval processes are to be followed before the transactions can be undertaken.

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