**Centralised Banking, 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 agencies are consistent with the overall objectives of the Government;
* surplus funds are retained and deposited within the Central Banking System (CBS), which reduces the Government’s borrowing requirement; and
* long-term portfolio investments are managed efficiently by the Victorian Funds Management Corporation (VFMC).

As part of the State’s prudent approach to financial risk management, the Government has established:

* a CBS administered by Westpac in its role as the State’s banker under a banking service contract;
* the Treasury Corporation of Victoria (TCV) as the centralised borrowing/finance agency to manage the borrowing and related financial market activities of public sector entities; and
* the VFMC as the centralised investment agency to manage the long-term portfolio investments of public sector agencies.

## Centralisation Policy

The CBS policy is mandatory for all general government sector (GG) agencies. It is non-mandatory for public non-financial corporations (PNFCs) and public financial corporations (PFCs) though the Treasurer has formally requested PNFC boards to consider depositing surplus funds in the CBS.

The policy is given legal effect through the Standing Directions 2018 under the *Financial Management Act 1994.*

The Standing Directions require:

* agencies to place all surplus funds on deposit with the CBS through a Westpac deposit account. As noted above, this is mandatory for GG agencies and voluntary for PNFCs and PFCs;
* all borrowings and financial (hedging) arrangements of $1 million or more to be undertaken with TCV; and
* an exemption for GG agencies to allow-term portfolio investments, which in practice are likely to be managed by VFMC.

If a GG agency has an exemption from the CBS from the Treasurer under Standing Direction 1.5(b), then all monies must be invested with VFMC, TCV or as otherwise directed by the Treasurer. In practice, long-term portfolio investments will be managed by VFMC, unless the Treasurer has directed otherwise. Agencies will need to apply for approval (exemption under Direction 3.7.2.1) from their portfolio minister and the Treasurer for VFMC to manage their funds. The primary case for exemption will rest on establishing a business case to support the investment of funds in a long-term portfolio. Current VFMC investments may remain during the initial phase of the CBS implementation. However, investments may not be increased, and new investments may not be placed unless the GG agency has an exemption.

The Standing Directions provide for the following exceptions and exemptions:

**Exceptions outlined in Direction 3.7.2.1**

* agencies may retain notes and coins, and funds in a transactional bank account, to meet daily cash flow requirements, albeit these should be minimised;
* agencies may undertake foreign currency hedging transactions of less than $1 million with an intermediary, other than TCV;
* an exemption applies to money held on trust by an agency for, and repayable to, a known beneficiary (other than the State or an agency) pursuant to a statutory function; and
* where, following consultation with the agency’s portfolio minister, the Treasurer has in writing approved an exemption.

**Complete Exemptions outlined in Direction 1.2.1**

* school councils, incorporated committees of management, volunteer fire units/brigades of VicSES and the CFA, and Class B cemetery trusts.

**Exemptions outlined in Direction 1.2.2 from Direction 3.7.2.1**

* PNFCs and public financial corporations (PFCs); and
* Universities established under a Victorian State Act.

**Exemptions outlined in Direction 1.5**

* An agency may request its Responsible Minister to apply to the Treasurer to apply for an exemption under Directions 3.7.2.1, 3.7.2.3 and 3.7.2.4. An application must be in writing and include the reasons for the exemption; and
* The Assistant Treasurer may exempt a person, agency or class of agencies from Direction 3.7.2.1 with respect to an asset or class of assets.

## Agency Treasury and Investment Policies

The State has a conservative philosophy for the management of treasury risks and accordingly, agencies must establish treasury (borrowing and/or investment) policies appropriate to the borrowing and investment risks of their business.

Agencies must maintain a Treasury Policy if it has borrowings and cash and interest-earning investments.

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

Sample policies are to be included in the Standing Direction Guidance. Advice can be sought from DTF on tailoring policies consistent with the requirements of an agency.

For further information, see the Standing Directions 2018 page on the DTF website.

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