Management report to Council

Agenda item 6.3

Proposed update and consolidation of financial policies

Council

Presenter: Michael Tenace, General Manager Finance and Corporate and Chief Financial Officer

30 May 2023

Purpose and background

1. The purpose of this report is to seek adoption of the proposed update and consolidation of Council's key financial policies (refer Attachments 3, 4 and 5).

2. Between April and July 2021, Council adopted six financial policies consisting of the following:

   2.1. Investment and Strategic Income Policy in April 2021

   2.2. Treasury Policy, Liquidity Risk and Cash Flow Policy, Financial Sustainability Policy, and Borrowing Policy in May 2021

   2.3. Wholly Owned Subsidiary Governance Protocol in July 2021.

3. The proposed updated and consolidated Treasury Policy, Financial Sustainability Policy and Governance Protocols for Wholly-Owned Subsidiary Companies were:

   3.1. Reviewed by the Audit and Review Committee (ARC) in November 2022. Management subsequently incorporated ARC's feedback and presented the revised policies to ARC in February 2023. Upon reviewing the latest iteration of the revised policies, ARC is supportive of the revised policies being presented to Council for adoption.

   3.2. As part of the Budget 2023–24 process in recent months, management has ensured that the updated Four Year Budget aligns with the key ratio thresholds recommended in the Financial Sustainability Policy (refer Attachment 4). The forecasted ratios over the budgeted four years comply with the proposed Financial Sustainability Policy. The forecasted ratios have been reviewed by ELT in April 2023.

Key issues

4. The five policies (Investment and Strategic Income Policy, Treasury Policy, Liquidity Risk and Cash Flow Policy, Financial Sustainability Policy, and Borrowing Policy) are proposed to be updated and consolidated into two policies (Financial Sustainability Policy and Treasury Policy). The Governance Protocols for Wholly-Owned Subsidiary Companies is proposed to remain as a standalone policy.

   4.1. A visual summary of the proposed consolidation of the policies is provided in Attachment 2.

   4.2. An updated and consolidated Treasury Policy is provided in Attachment 3.

   4.3. An updated and consolidated Financial Sustainability Policy is provided in Attachment 4.

   4.4. An updated Governance Protocols for Wholly-Owned Subsidiary Companies is provided in Attachment 5.

   4.5. A summary of key changes made to the Financial Sustainability Policy, Treasury Policy and Governance Protocols for Wholly-Owned Subsidiary Companies is provided in Attachment 6.

Recommendation from management

5. That Council:

   5.1. Adopts the updated and consolidated Treasury Policy (Attachment 3 of the report from management), Financial Sustainability Policy (Attachment 4 of the report from management) and Governance Protocols for Wholly-Owned Subsidiary Companies (Attachment 5 of the report from management) superseding the existing Investment and Strategic Income Policy, Treasury Policy, Liquidity Risk and Cash Flow Policy, Financial Sustainability Policy, Borrowing Policy and Wholly Owned Subsidiary Governance Protocol.

   5.2. Authorises the General Manager Finance and Corporate and Chief Financial Officer to make any further minor editorial changes to the Treasury Policy, Financial Sustainability Policy and Governance Protocols for Wholly-Owned Subsidiary Companies where necessary prior to publication.

Attachments:

Legal

1. Legal advice has and will continue to be provided as required in respect to all aspects of the various financial policies.

Finance

2. The financial implications of management's recommendations are as follows:

   2.1. The proposed consolidation and updates to the Financial Sustainability Policy more effectively and concisely provide Council with the parameters to operate in a financially sustainable manner. The intended financial implications of operating within the updated policy's guidelines and financial ratios is that Council will:

      2.1.1. ensure its parameters are clear for ongoing financial sustainability

      2.1.2. ensure it manages and monitors its financial risks prudently

      2.1.3. ensure it provides stability and predictability with respect to the material financial implications for the community.

   2.2. The proposed consolidation and updates to the Treasury Policy will assist Council to better manage risk in line with its risk management framework associated with financial operations, ensure adequate liquidity through optimised borrowing practices and the safeguarding of financial assets by maintaining appropriate staffing, operational controls and infrastructure in its corporate treasury functions.

   2.3. The proposed updates of the Governance Protocols for Wholly-Owned Subsidiary Companies more effectively take into account its relevancy to the current and changing environment as well as the better governance practices available. The updates sought to improve the documentation of roles and responsibilities, reporting requirements and other issues, in a manner that promote greater clarity, transparency and accountability of Council's wholly owned subsidiary companies.

Conflict of interest

3. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a material or general conflict of interest in relation to the matter of the report.

Health and Safety

4. In developing this proposal, no occupational health and safety issues or opportunities have been identified.

Stakeholder consultation

5. Given that this is a proposal pertaining to internal financial policies, in developing the recommendation, no external stakeholders were consulted and engaged throughout the process of updating the Financial Sustainability Policy and the Treasury Policy.

6. Feedback from Citywide Service Solutions Pty Ltd and Queen Victoria Market Pty Ltd was sought throughout the process of updating the Governance Protocols for Wholly-Owned Subsidiary Companies.

Relation to Council policy

7. The proposed update and consolidation of the financial policies are aligned with the following Council policies and strategies:

   7.1. Economic Development Strategy: Operating within the guidelines provided in the various financial policies will ensure Council operates in a financially sustainable manner and monitors its risks in such a manner that supports the recovery of the City of Melbourne as it emerges from the impacts of COVID-19.

Environmental sustainability

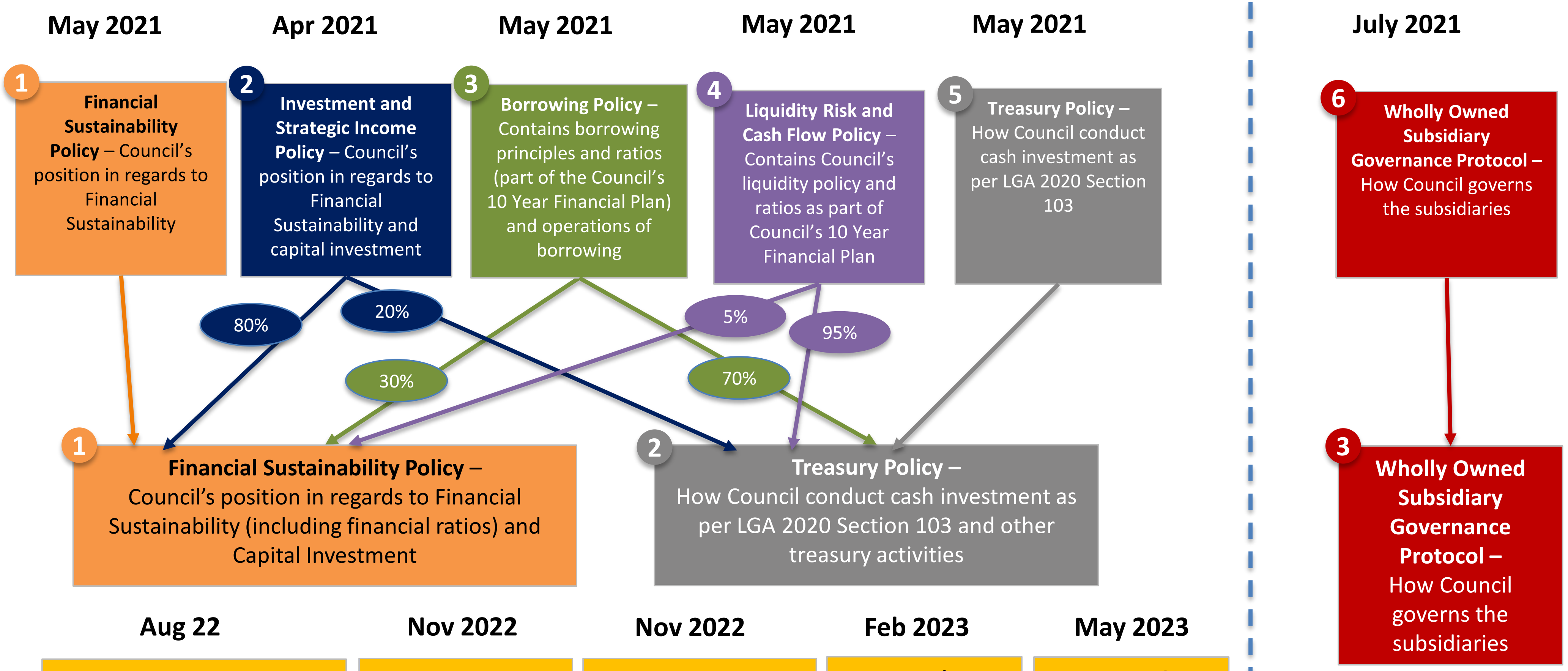
8. In developing this proposal, environmental sustainability issues or opportunities have been considered:

   8.1. The consolidated policies make reference to Council's requirement to adhere to sections 9(1) and 9(2) of the *Local Government Act 2020*, which gives effect to the overarching governance principles including the consideration of the economic, social and environmental sustainability of the municipal district, including the promotion of mitigation and planning for climate change risks (i.e. to promote the sustainability of the municipality).

   8.2. The consolidated policies note that the concept of socially responsible investment appeals to Council where practical as part of its strategic objectives. This concept acknowledges the relevance of environmental, social and governance factors.

Simplification of the Policies – 6 Policies to 3 Policies

Previous Council Adoption



Proposed Timeline of Policies Consolidation

Aug 22	Nov 2022	Nov 2022	Feb 2023	May 2023
ARC Review on Wholly Owned Subsidiary Protocol	ARC and FGR Portfolio Review	Briefing Paper to Councillors	ARC and ELT Review	Council Adoption

Benefit of Consolidation

Simple to administer and review, facilitates the need for quick decision making, less cross-referencing of policies that will ensure consistency, keep policies relatively concise and fit for purpose

CITY OF MELBOURNE

CITY OF MELBOURNE

Treasury Policy

Effective Date: May 2023

Contents

TREASURY POLICY STATEMENT

1 PURPOSE

The purpose of this policy statement is to ensure a prudent, orderly and efficient approach to the management of assets and liabilities associated with the financing of City of Melbourne's business through the professional assessment and management of:

- interest rate risk associated with borrowing and investment activities;
- foreign currency risk arising from business transactions involving currencies other than Australian dollars;
- credit risk attached to financial activities;
- liquidity risk associated with the cash flow position and ongoing funding requirements;
- commodity risk arising from business operations; and
- operational risk associated with treasury activity.

This Statement is complemented by the City of Melbourne Treasury Management Procedures which specifically addresses the operational risks arising from the conduct of corporate treasury operations.

2 OBJECTIVES

The primary objectives of City of Melbourne's financial risk management are to:

- Manage the daily and long term liquidity needs of the Council (parent entity only);
- Optimise cash resources, in such a way as to maximise net financing income and maximise the investment portfolio within acceptable levels of risk;
- Optimise borrowing requirements to ensure adequate liquidity as well as minimisation of interest cost;
- Ensure that all financial and treasury management operational exposures are fully identified, quantified, planned, approved and managed; and
- Safeguard the financial resources by maintaining appropriate staffing, operational controls (including credit guidelines) and infrastructure in corporate treasury functions.

3 SCOPE

The Policy Statement applies to all City of Melbourne:

- borrowings and investments;
- interest rate risk management transactions;
- foreign exchange risk management transactions;
- commodity price risk and exposure management transactions; and
- Management of statutory and discretionary reserves

4 DEFINITIONS

Borrowings – refers to the total amount of loans taken out by Council, and including amounts owed by lease.

Foreign Exchange – a contract entered into by Council to purchase foreign currency to pay overseas suppliers – see hedging.

Loan – refers to a loan taken out by Council from an accredited financial institution in line with policy.

Hedging - covering for expected fluctuations in currency when purchasing items (plant and equipment) from foreign source suppliers by way of forward exchange contract, or locking in a loan at a favourable interest rate to avoid future unfavourable fluctuations.

Interest – a charge imposed by a financial institution for access to credit, or an amount paid by a financial institution for holding deposits.

Investment – refers to the amount of money invested with accredited financial institutions as outlined in Schedule 5 below.

5 RISK MANAGEMENT PHILOSOPHY

City of Melbourne is exposed to financial risk arising from the nature of its operations. The guiding principles embodied in the Council's approach to managing these risks are to:

- safeguard the financial resources to ensure the ability to meet financial obligations at all times
- adopt a risk averse approach in the development and execution of strategy;
- avoid pursuing short term objectives which may adversely impact long term business results;
- use risk management techniques for bona fide purposes only. Speculative position taking is prohibited;
- maximise the return of investments over the long term, and deliver commercial outcomes consistent with the Council's business plans;
- operate at all times within approved policy and relevant legislative requirements; and
- always observe the highest standards of professional conduct and ethics.

The use of derivative products to manage financial risk is restricted to bona fide hedging purposes only (i.e. basic forward exchange contracts). For the purposes of this Policy Statement, the following criteria must be met to constitute a hedge:

- the item to be hedged must expose the Council to financial risk from interest or exchange rate, or commodity price movements;
- the instrument must be designated as a hedge at the time of taking out the hedge;

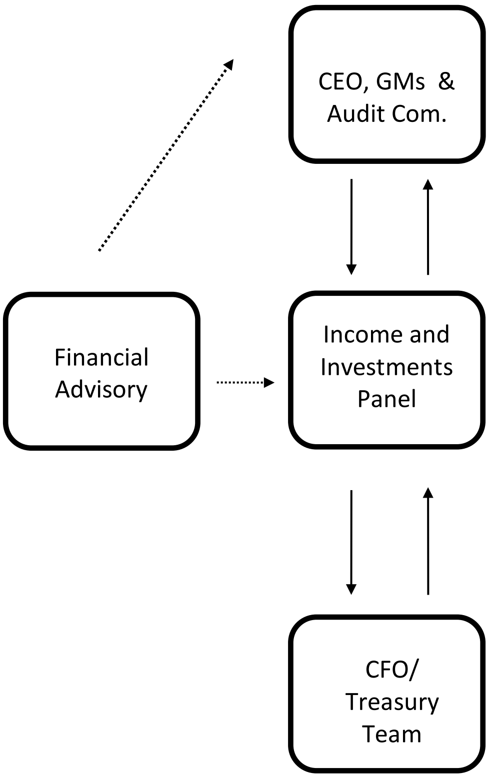
- the instrument must contribute to the reduction of exposure to financial risk; and
- the item must not already be effectively hedged by an off-setting risk.

6 RISK MANAGEMENT FRAMEWORK

The Finance and Investment Branch through the Treasury Team is responsible for the management of the financial risks as defined in this Policy Statement.

The Treasury Team will employ an active approach in managing these financial risks through the use of various facilities and risk management instruments, in accordance with the Policy Statement, and within strategy parameters and overall policy limits set by the Income and Investments Panel, and approved by Executive Leadership Team.

The framework used for financial risk management is set out as below:



- Approval of:
  - Policies
  - Philosophy
  - Strategy

- Establish, review and recommend policies
- Establish, review and endorse strategies
- Tactical objectives and policy compliance
- Specialist advisory input and support

- Develop, implement, monitor and report on policies and strategies
- Quantitative analysis
- Data capture and reporting

The Income and Investments Panel is comprised of the Chief Financial Officer (Chair), Director Property, Director Capital Works, Director of Finance, Rates and Investment, Finance representatives of the Business Management Team (BMT – Finance, Rates and Investment branch) and Treasury staff.

The Income and Investment Panel meets on a quarterly basis or as required. The meetings if held are minuted. In the absence of a meeting the Treasury team will distribute its report quarterly to the members of the Income and Investments Panel and Chief Executive Officer.

External bodies skilled in all aspects of treasury risk management and investments supply financial advisory services on an as needs basis. This ensures a wider spectrum of commercial views is available for input to the strategic decision making processes.

- The Financial Advisory Services will be provided by an entity or person: Approved by Management
- Licensed by ASIC
- An independent person/entity that has no actual or potential conflict of interest in relation to investment products being recommended.

The Income and Investment Panel will facilitate:

- effective management of financial and other risks and the protection of Council investments compliance with laws and regulations.
- assisting the Council to discharge its responsibilities to exercise due care, diligence and skill in relation to the Council's:
  - reporting of financial information on investments and investment returns
  - application of accounting policies
  - financial management
  - internal control systems
  - policies and procedures
  - compliance with applicable laws and regulations
  - risk management systems, in particular monitoring and control of risk

Reporting and performance is included in monthly management reports.

7 RISK MANAGEMENT APPROACH

The Risk Management Approach refers to Council's management of risk associated with interest rates, foreign currency, credit, liquidity and cash flow, commodity prices, and the operations of Council.

7.1 Interest Rate Risk

The risk that the Council will suffer a financial or economic loss due to adverse movements in interest rates.

Interest rate exposure occurs when, during a future time period:

- the cash position will be in surplus or deficit;
- a borrowing or investment matures;
- an interest repricing occurs on a borrowing, investment, lease or risk management product; or
- there are new borrowings.

Interest rate risk also occurs on all financial assets and liabilities in the context of changes in relevant market interest rates and their impact on the market value of the Council's investment portfolios and any future debt program

All interest rate risk exposure is to be managed within Council approved parameters as set out in Schedule one.

7.2 Foreign Currency Risk

The risk that the Council will suffer financial loss due to adverse movements in currency exchange rates.

Foreign currency risk arises primarily from foreign sourced capital equipment purchases.

These currency exposures are recognised and managed as follows:

- Foreign Sourced Capital Equipment Purchases (purchases of plant and equipment greater than AUD $5 million) - foreign exchange exposure is recognised at the earliest date of commitment which, to the extent possible, will be prior to order date at a time when there is a high probability of proceeding to purchase.

Council will seek the approval from the Treasurer and the Minister in the event Council want to use an over-the-counter derivative product (i.e. basic forward exchange contract) to hedge foreign exchange exposure. As each instant arises, Council will seek advice and quotes from at least three banks, as to the best way to protect the City of Melbourne from the risk specific to each transaction, and for the best price.

This risk has been included and provided for in the policy for completeness. However, it is recognised that this type of transaction is rare.

Approval to enter the transaction will be at the discretion of the Chief Financial Officer and/or the Financial Controller/Treasurer and will require CEO approval. All foreign currency risk exposure is to be managed within Council approved parameters as set out in Schedule two.

7.3 Credit Risk

The risk that the Corporation will suffer financial loss due to the inability of a counterparty to meet its financial obligations in full on the due date.

Credit risk arises primarily from:

- investments;
- interest rate and currency risk management products;
- third party guarantees; and
- sales activity and miscellaneous operations.

The objective of managing credit risk is to ensure potential exposure is identified, quantified and reported in a timely and accurate manner, and to mitigate this risk by adequately spreading exposures amongst creditworthy counterparties.

Corporate exposure to credit risk is managed through establishment of approved exposure limits, instrument types and counterparty listings as per Schedules three and four. These Schedules are reviewed annually as part of this Policy Statement.

If a different level of rating for the Short Term and Long-Term rating of a financial institution is applied by one of the Rating Agencies, the lower of the ratings will be utilised by Council in assessing the rating of that financial institution for investment purposes

An exposure is recognised upon the creation of a contractual obligation with the counterparty, notwithstanding that physical settlement may occur at a much later time. Individual counterparty ratings are monitored on an ongoing basis and verified monthly by the Treasury Team.

In the event that a rating agency downgrades a counterparty, open positions are reviewed and managed (including the unwinding of positions in an orderly manner as soon as practicable, subject to due consideration of risk, penalties and lost interest) to ensure exposure complies with the limit applicable to the new rating. This will include requesting the counterparty to repay sufficient funds to bring exposure within the new counterparty limits. If the counterparty will not repay funds prior to maturity the position(s) should be unwound on maturity to bring exposure within counterparty limit.

An example – if Council has deposited $30 million in an investment fund with a AA bank (the maximum limit for AA banks), and due to economic conditions, the bank is downgraded to an A+, we would need to reduce our holdings to $20 million as per the policy (see schedule 3 below) as soon as is practicable after taking into account fees and lost interest due to withdrawing prior to maturity.

The category of a tier one bank has been introduced to guard against the adverse impact of a downgrade. For the purpose of this policy a tier one bank is a major Australian trading bank with a capital base of more than $40 billion AUD. The capital base measure will guard against the adverse financial performance of a tier one bank. A tier one bank will have the same counterparty limits as an AA rated entity.

7.4 Liquidity and Cash Flow Risk

The risk that an unforeseen event or miscalculation in the required liquidity level will result in insufficient funds being available to meet obligations associated with financial liabilities and or operating expenditures.

Liquidity risk management has the objective of ensuring adequate funding is available at all times to meet the commitments of the Council as and when required.
To assess the liquidity risk of the Council, the following should be considered:

- Monitoring on a daily, weekly and monthly basis as required to ensure the Council maintains sufficient cash resources to meet its obligations
- Having a liquidity target for a minimum of $5m of cash and cash equivalents to be maintained via Treasury's Daily Cash Forecast

- Having a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid investments
- Having sufficient external borrowing facilities available to cover periods of cash shortfall.
- the predictability of grant and rates receipts and other revenue cash flows;
- the ability to predict operating, capital and administration expenses with reasonable precision;
- the timing of major capital expenditures, and event related expenditure throughout the year; and
- the timing and capacity of borrowing and repayment requirements.

The management approach to liquidity risk can be summarised under the areas of:

- Cashflow Forecasting
- Short-term liquidity management;
- Medium-term liquidity management;
- Long-term liquidity management;
- Bank Relationships; and
- Borrowing

Cashflow Forecasting

The focus of liquidity management is on suitable modelling and forecasting of cashflow information to identify funding requirements and investment opportunities. This is supported by the maintenance of an efficient and effective banking structure and sound cash management practices throughout the Council. The primary liquidity risk in daily cash management is that the cash flow forecast will be incorrect due to variations between actual and forecast cash flows.

Variations may be caused by:

- Variability in the payment of rates and other receivables,
- Unexpected cash outflows,
- Impact of economic conditions, and
- Changes to payment policies of debtors.

The cash flow forecast is prepared for a minimum of three months forward forecasts, with the Treasury team forecasting, monitoring and updating it on a daily basis, following discussion with the Financial Controller/Treasurer. This should allow the Council to consider and assess the likely impacts of liquidity risks around revenue (for example: grant and rates receipts) and expenditure (operating and administrative) cash flows.

In developing the cash flow forecast, the Council should consider the following factors when determining the likely profile and magnitude of its revenue and expenditure cash flows in any given forecast period:

- Historic cash flow trends
- Impact of major one-off cash injections or outflows (e.g. cash grants, capital expenditure, major events expenditure)
- Effect of any proposed changes to underlying drivers (e.g. change in pricing)

Responsibility for planning, updating, maintaining and forecasting cash flow is delegated to the Treasury team to ensure likely cash flow peaks and troughs are identified in advance, with remedial action taken to mitigate against these threats as appropriate.

Investments are restricted to highly liquid and secured assets in accordance with Schedule four.

Short Term Liquidity Management

- Short Term Liquidity - ensures funds are available as and when required. The primary actions undertaken to manage short term liquidity risk are the management of bank accounts balances, investment decisions made with respect to the short term money market and borrowing facilities.
- Medium Term and Long Term Liquidity - the ongoing process of ensuring funding facilities are in place to meet future long term requirements. Long term liquidity management is dependent upon the maturity profile of borrowings and the ability to access various financial markets for funds; and
- Crisis Avoidance - the management of liquid assets, standby facilities and suitable insurances to prevent or minimise the cashflow impact of a sudden, unforeseen event.

Medium-Term Liquidity Management

Medium-term liquidity management is monitored by monthly cash flow forecast modelling. Responsibility for budgeting, updating, maintaining and forecasting the profile of the cash flow statement and relevant balance sheet components is delegated to the Treasury team to ensure likely cash flow peaks and troughs are identified in advance, with remedial action taken to mitigate against these threats as appropriate.
The council manages its medium term liquidity requirements using approved instruments detailed in this policy.

Long-Term Liquidity Management

Long-term liquidity management is the ongoing process of ensuring funding is available to meet future long-term financial requirements. Long-term liquidity management identifies the cash flow deficits in future periods, and the extent of current forecast reliance on particular debt instruments, facilities or lenders.
The balance sheet and debt maturity profile should be structured in a manner that protects the Council against future liquidity problems. The key two issues to be considered in managing the long-term liquidity are:

- Leverage (the magnitude of borrowings compared to revenue); and

- the debt maturity profile (the time remaining to the scheduled or specified maturity).

Long-term liquidity risk is managed, whenever feasible, by:

- maintaining adequate levels of surplus cash; and
- maintaining appropriate financial ratios that allow access to long-term debt capital.

A review of the long-term liquidity risk will be undertaken annually.

As part of the long-term liquidity risk assessment, the Council's 10 Year Financial Plan will be updated with the most updated funding source and borrowing requirement.
Responsibility for budgeting, updating, maintaining and forecasting the profile of the cash flow statement and relevant balance sheet components is delegated to the Financial Operations and Treasury teams to ensure likely cash flow peaks and troughs are identified in advance, with remedial action taken to mitigate against these threats as appropriate.

Long-Term Liquidity - Approved Instruments & Delegation of Authority

The instruments used for long-term funding requirements are capital markets issues or bank debt facilities. The Executive Leadership Team, via endorsement of the recommendation from the Income and Investments Panel, is required to approve any new long-term financial accommodation and the debt instrument to be issued. In addition Council approval would also be required following review and recommendation by the Executive Leadership Team, as the power to borrow money cannot be delegated according to Local Government Act 2020, Section 11

Bank Relationships

In order to manage the Council's liquidity risk, good relationships with banks and capital market participants are considered to be very important.

The Treasury team is required to actively promote such relationships and whenever possible, Council will be spread across the range of key relationship banks.
The Executive Leadership Team has empowered the Chief Financial Officer, Director of Finance Rates and Investment and the Financial Controller/Treasurer to establish all banking and funding facilities (including bank overdraft) necessary to provide adequate liquidity.

The general fund bank account balance of Council is to be kept at a level that is sufficient to meet Council's immediate cash flow requirements (reviewed weekly), with any surplus funds being applied to reducing debt if beneficial or placed on investment. Funds available for investment will be determined following a review of expected future cash flows. Timing of investment maturities will also be considered.

Investment is defined as placement of any money in accordance with Section 103 Investments of the Local Government Act 2020. Investments are restricted to highly liquid and secured assets in accordance with Schedule 4 - below.

7.5 Commodity Risk

The risk that the Corporation will suffer financial loss due to adverse movements in the price of commodity inputs and / or outputs related to its business operations.

Commodity risk will be managed where exposure to specific commodity prices is deemed to have the potential to significantly impact on the Corporation's business. Lower order exposures arising from purchase orders, supply and service contracts executed in the course of normal business and commonly accepted commercial practices do not warrant specific management under this financial risk management framework.

No significant exposure exists within City of Melbourne's present operating framework. Should significant commodity risk arise, the Income and Investment Panel will be responsible for developing appropriate procedures to identify, monitor and manage the financial exposure arising from this risk. Such procedures will be subject to review by Executive Leadership Team.

7.6 Operational Risk

The risk to the Corporation of financial loss associated with the day-to-day functional activities of the financial risk management process.

These risks include financial loss due to mismanagement, error, fraud, or unauthorised use of techniques and/or financial products.
The objective of managing operational risk is therefore to ensure the potential for such financial loss is reduced through maintaining an effective processing and control framework covering treasury activity.

Management of operational risk is addressed by:

- appropriate organisation structuring and staffing - established risk management framework encompassing clearly defined roles and responsibilities, adequate segregation of duties, and properly trained and skilled staff. The framework for treasury transaction processing is set out in Schedule five;
- approved treasury management operational delegations - fully documented dealing and authorisation limits as set out in Schedule six;
- established policy and procedures - properly documented financial risk management policies and general operating procedures;
- independent audit and control practices - monitoring and reconciliation controls maintained by ongoing corporate risk assessment program, supported by independent internal and external audit review. The review of treasury management operations is included from time to time in the City of Melbourne internal audit program;

- effective reporting function - program of regular and independent reporting serving management, monitoring and control purposes and covering all treasury activity, exposures and (non-) compliance with policy; and
- integrity of information and systems - coordinated plans covering security, backup (including disaster recovery) of treasury systems and information assets.

The management of the operational risks arising from the conduct of corporate treasury operations is addressed in detail by the City of Melbourne Treasury Management Procedures.

7.7 Risk Appetite

The City of Melbourne will only invest in financial instruments listed in schedule four of this policy. Counterparty limits are specified in schedule three of the policy and the credit rating reflects the inherent probability of default.

Investments and borrowings should have a variety of maturity dates in order to spread exposure to interest rate movements and manage cash flow requirements.
The portfolio liquidity parameters (duration limits) specify the maximum and minimum amounts or percentages of the Council's total investment portfolio that can be held within the various investment maturity bands. The liquidity / maturity profile of the total portfolio must comply with the parameters shown in Schedule 1.

- Minimum thresholds are set to ensure that there will always be an adequate amount of liquidity available in earlier maturity bands before funds may be committed to longer term investments. The minimum thresholds are higher in the shorter term where liquidity is of the greatest concern.

- Maximum thresholds are set to control the proportion of the total portfolio that can be invested into longer term investments to ensure that Council has adequate access to short and medium term liquidity to satisfy its business objectives. The maximum thresholds reduce as the maturity horizon extends further into the future.

Investment threshold limits may be exceeded when investments are redeemed to fund cash flow and there is limited capacity to rebalance the portfolio. All new investments must be placed in a way so the thresholds are rebalanced as soon as practical. If thresholds are exceeded when placing an investment, Council will take steps to rebalance the portfolio within 60 days to ensure that all investments adhere to the threshold limits, taking into consideration risk, penalties and lost interest.

Maximum maturity term shall not exceed 5 years.

In the event of an exception to the above, the procedure to follow is stated in Schedule 3 – Credit Risk.

8 BORROWING

Council recognises that borrowings for productive purpose (capital works and working capital as required) or linked to Council's significant major projects is a source of funding, as borrowings will be used to benefit present and future ratepayers. This framework allows Council the flexibility to respond to funding requirements while minimising risk.

Council will abide by the Victorian Local Government Act 2020, including section 104 which provides money cannot be borrowed unless the proposed borrowings are included in the annual approved budget or revised budget.

Loans or Borrowings relate to interest bearing loans and borrowings. Interest bearing loans and borrowings is a loan or borrowing in which the debt is expressed as a principal amount and interest is calculated, charged, and collected on unpaid balances.

This section ensures that Council has a sound financial framework on which:

- to undertake its borrowings;
- to manage its loan portfolio; and
- to adhere to the provisions of the Local Government Act 2020.

The objectives of this section are:

- to assist Council to manage cash flow;
- to ensure Council's new borrowings are sustainable and comply with legislative requirements; and
- to ensure loan type and term will be treated on a case-by-case basis in order to optimise Council's total loan value and minimise borrowing costs.

8.1 Borrowing Principles

Council's Borrowing activity will be in accordance with the applicable law and regulations and is underpinned by the following principles:

- Council will not borrow to fund operating expenditure (other than for short-term working capital needs as cash flows dictate), recurrent or regular capital works which is inclusive of acquisition, replacement or renewal of assets (e.g. road resurfacing, new or upgraded pavilions and promenades). These types of expenditure should be funded from operating revenue streams.
- Borrowings used to finance Capital Investment for capital discretionary and strategic purpose (Council's Significant Major Projects) should not be drawn down until the commencement of the project and shall include a repayment plan contained in a business case.
- The term of any loan should not exceed the life of the asset.
- Council should not borrow to participate in beneficial enterprises where it will make Council's total risk exposure exceeding its total investment.

- Council will not enter into a lease (as per defined by AASB 16 Lease) where it will make Council breach this policy – see 8 LEASES.

Cash flows will be phased in order to consolidate the principle and interest requirements of approved capital projects.

8.2 Borrowing Ratios

The Victorian Auditor General's Office (VAGO) reports on the financial sustainability local government, and uses the following indicators to assess the risk:

1. **Internal financing** = Net operating cash flow / Net capital expenditure.
   This measures the ability to finance capital works from generated cash flow. The higher the percentage, the lower the risk.
2. **Indebtedness** = Non-current liabilities / Own-sourced income.
   Compares non-current liabilities (including borrowings) to own-sourced revenue. The lower the percentage, the lower the risk (aim to be lower than 60%)
3. Loans and Borrowings compared to rates = Interest bearing loans and borrowings / rates revenue.
   Assesses whether Council's level of interest bearing loans and borrowings are appropriate to the size and nature of Council's activities (aim to be in the range 0% - 70%)
4. **Loans and Borrowings repayment compared to rates** = Interest and principal repayments on interest bearing loans and borrowings / rate revenue.
   Assess whether Council's level of repayments on interest-bearing loans and borrowings is appropriate to the size and nature of Council's activities (aim to be in the range 0% - 20%)

8.3 Borrowing Type and Term

Council will seek to minimise total borrowing costs over the long term. Borrowings may be structured as short, medium and long term, with fixed and floating interest rates. Council will assess the appropriateness of lending institutions which can include:

- Bank
- State Government i.e. Treasury Corporation Victoria (TCV)
- Federal Government, and
- Global partner institutions.

Council will complete market analysis to recommend the type of borrowing to undertake (lease, bonds, loan, or other), the loan term (number of years) and interest rate type (fixed or variable).

9 LEASES

Leasing (except short-term and low-value lease as per defined by AASB 16 Leases) is a funding option which will form part of Council's overall borrowing strategy and has an impact on Council's borrowing ratios.

10 FUNDING OF STATUTORY AND DISCRETIONARY RESERVES

The Council maintains both Statutory and Discretionary Reserves that acknowledge the receipt of funds from particular sources to be applied on programs that are consistent with the purpose of that Reserve fund.
Funding allocations from Reserves will be determined during the budget process and the Treasury team will be required to plan and ensure that the Council maintains adequate cash and funding sources to cover Reserves.

These funds will not have a separate bank account but will be separately identified in the balance sheet.

11 ROLES AND RESPONSIBILITIES

Responsibility for the management and control of the financial risks faced by City of Melbourne is vested with the following parties:

- Executive Leadership Team;
- Income and Investments Panel;
- Chief Financial Officer / Director of Finance, Rates and Investments; and
- Financial Controller / Treasurer.

In addition, the Audit and Risk Committee provides an oversight role in risk management within the Council.

Executive Leadership Team approves the financing and overall risk management strategy recommended by the Income and Investments Panel and is advised of the performance of this strategy by the Treasury Team.

The Treasury Team will employ an active approach in managing these financial risks through the use of various facilities and risk management instruments, in accordance with the Policy Statement, and within strategy parameters and overall policy limits set by the Income and Investments Panel, and approved by Executive Leadership Team.

Role of the Executive Leadership Team

- Approve the overall financing and risk management strategy;
- Monitor the performance of treasury management, including compliance with policy; and
- Delegate to the Chief Financial Officer to undertake treasury activity within the limits approved by this Policy.

Role of the Income and Investments Panel

- To meet/review on a quarterly basis or as required, as a forum for strategic management overview, including the processes of:

- reviewing previous quarter's transactions and results;
- establishing views on likely future economic factors;
- setting out risk exposures;
- establish and endorse strategies; and
- recording and minuting decisions and rationale.

Role of the Chief Financial Officer/Director of Finance, Rates and Investments

- Review Treasury Policy (annually following Financial Controller/Treasurer review) and recommend any proposed operational amendments made to the Policy to the Executive leadership Team for approval;
- Ensure strategies are formulated and recommended to the Income and Investments Panel;
- Provide management input to treasury operations to ensure a high quality of service; and
- Approve treasury operational delegations.
- Identify risk and formulate appropriate financing and risk management strategy proposals;
- To implement strategy within approved limits and policy;
- To provide the required reports to the Income and Investments Panel and report any breaches of policy;
- Monitor the activities of, and take ultimate responsibility for, the treasury management activities of the Treasury team; and
- To develop and review (on an annual basis) the Treasury Policy Statement;

Role of the Financial Controller/Treasurer

- Manage the day to day activities of the Treasury team;
- Manage and plan for adequate cash balances to meet all operational and capital programs;
- Manage bank facilities within required covenants;
- Create and review required policies; and
- Set agenda, provide reports and minutes for the quarterly investment panel meetings

Role of the Audit and Risk Committee

- Review of proposed updates of policies prior to submission to Council for approval; and
- Review and identification of Council financial risk, and oversee risk mitigation and exposure when required.

Responsible staff shall not engage in activities that would conflict with the proper execution and management of Council's investment portfolio. Any potential conflicts of interest should be appropriately disclosed in accordance with Council's Code of Conduct.

12 ACCOUNTING FOR TREASURY TRANSACTIONS

Treasury transactions are accounted for in accordance with the City of Melbourne's accounting policies and relevant Australian Accounting Standards.

13 PERFORMANCE MEASUREMENT

The primary treasury management objective of the Treasury Team is to;

- Manage the daily and long term liquidity needs of the Council;
- Optimise cash resources, in such a way as to maximise net financing income and maximise the investment portfolio within acceptable levels of risk when Council is a net investor of cash;
- Optimise cash resources by minimising interest expense by managing the debt requirements whilst ensuring sufficient cash availability for Council requirements; and
- Ensure that all financial and treasury management operational exposures are fully identified, quantified, planned, approved and managed.

The performance benchmark of the Treasury Team will be aligned to the Investment and Strategic Income Policy Statement and future updates as approved by Council.

The performance of the Treasury Team will be objectively measured through the establishment of annual KPI's agreed with the Chief Financial Officer (or the Director of Finance, Rates and Investments as the delegate) prior to commencing each Financial Year.

14 REPORTING

A reporting framework to ensure that management, monitoring and controls are maintained in accordance with the City of Melbourne Treasury Management Procedures.

The structure of this framework consists of:

- operational reports ;
- management reports;
- performance reports; and
- exception reports.

In order to support the financial risk management process, reporting to the Income and Investments Panel and Executive Leadership Team is undertaken at each quarterly meeting. Reports on specific issues are prepared as required.

Reporting to Income and Investments Panel should include:

- details of treasury transactional activities;
- details of portfolio composition and position;
- summary of financial risk management activity;

- liquidity position and future requirements;
- strategic issues;
- details of performance against measures;
- exceptions to approved policy; and
- operational issues.

Reporting to Executive Leadership Team should include:

- summary of financial risk management activity;
- overview of portfolio composition and position;
- strategy action items;
- overview of performance;
- exceptions to approved policy and proposed action; and
- assurance of compliance with the Treasury policy.

Other reports are to be provided from time to time as required.

15 **RETENTION OF DOCUMENTATION**

A copy of the external counterparty’s confirmation is to be filed with the daily cash requirements report or stored in E-docs/SharePoint and be retained for five years.

16 **REVIEW**

Treasury policy is to be reviewed by Chief Financial Officer, Director of Finance, Rates and Investment and the Financial Controller/Treasurer on an annual basis at a minimum. Any proposed changes are to be recommended in a briefing paper to the Investment and Income Panel and CFO’s approval are reported to the Executive Leadership Team.

17 **COMPLIANCE WITH THE GOVERNANCE PRINCIPLES**

Section 9(1) of the Local Government Act 2020 requires Council to give effect to the overarching governance principles. Section 9(2) of the Act specifies the governance principles as follows:

a) Council decisions are to be made and actions taken in accordance with the relevant law **(Compliance with the law)**;
b) Priority is to be given to achieving the best outcomes for the municipal community, including future generations **(Achieve best outcomes for the community**);
c) The economic, social and environmental sustainability of the municipal district, including mitigation and planning for climate change risks, is to be promoted **(Promote the sustainability of the municipality);**
d) The municipal community is to be engaged in strategic planning and strategic decision making **(Engage the community in strategic planning and decision making)**;
e) Innovation and continuous improvement is to be pursued **(Strive for innovation and continuous improvement)**;

f) Collaboration with other Councils and Governments and statutory bodies is to be sought **(Collaborate with all other levels of government and government agencies);**
g) The ongoing financial viability of the Council is to be ensured **(Secure the ongoing financial viability of Council)**;
h) Regional, state and national plans and policies are to be taken into to account in strategic planning and decision making **(Strategic planning and decision making must take into account plans and policies in operation at all levels);**
i) The transparency of Council decisions, actions and information is to be ensured **(Council decisions, actions and information must be transparent).**

Appendix 1. References LGA 2020

Local Government Act 2020 provides Councils the power to invest

Section 101 Financial Management Principles states that

1) *The following are the financial management principles –*

    a) *Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans*
    b) *Financial risks must be monitored and managed prudently having regard to economic circumstances*
    c) *Financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community*
    d) *Accounts and records that explain the financial operations and financial position of the Council must be kept*

2) *For the purposes of the financial management principles, financial risk includes any risk relating to the following:*

    a) *The financial viability of the Council*
    b) *The management of current and future liabilities of the Council*
    c) *he beneficial enterprises of the Council*

Section 102 Financial Policies states that

1) *A Council must prepare and adopt financial policies that give effect to the financial management principles*
2) *A financial policy must include any matters prescribed by the regulations*

Section 103 Investments states that

A Council may invest any money:

a) *In a Government securities of the Commonwealth; and*
b) *In securities guaranteed by the Government of Victoria; and*
c) *With an ADI; and*
d) *With any financial institution guaranteed by the Government of Victoria; and*
e) *On deposit with an eligible money market dealer within the meaning of the Corporations Act; and*
f) *In any other manner approved by the Minister, either generally or specifically, to be an authorised manner of investment for the purposes of this section*

Schedule 1 INTEREST RATE RISK

The following limits are in accordance with and have been approved under the now repealed section 143 of the Local Government Act 1989 and accord with section 103 of the Local Government Act 2020.

<table>
<tr><th>ITEM</th><th>APPROVED LIMITS</th></tr>
<tr><td>Investment Policy Statement and Annual Borrowing Program</td><td>Program to be conducted subject to:
approval from Council; and
approvals from the Victorian Government (Borrowing only)</td></tr>
<tr><td>Duration Limits</td><td>Securities:
Investments and borrowings should have a variety of maturity dates in order to spread exposure to interest rate movements and manage cash flow requirements.

Duration limits on long-term securities are to be set within Overall Portfolio Term to Maturity Limits detailed below

<table>
<tr><td colspan="2">Overall Portfolio Term to Maturity - Cash & Fixed Interest</td></tr>
<tr><td>Portfolio %<1 year</td><td>100% Max; 40% Min</td></tr>
<tr><td>Portfolio %=<2 year</td><td>60% and rated BBB+ and above</td></tr>
<tr><td>Portfolio %=<3 year</td><td>35% and rated A and above</td></tr>
<tr><td>Portfolio %=<5 year</td><td>25% and rated AA- and above and tier one banks.</td></tr>
</table>
</td></tr>
<tr><td>Interest Rate Risk Management Products (Hedging)</td><td>Usage of interest rate risk management products is restricted to bona fide hedging purposes only. Transactions of a speculative nature are not allowed.</td></tr>
<tr><td>Forward Rate Agreements (Hedging)</td><td>The purchase and sale of forward agreements is limited to total underlying exposure in terms of volume and time, subject to a maximum term of 18 months forward.

Positions transacted require the express approval of the Chief Financial Officer.</td></tr>
</table>

Schedule 2 FOREIGN CURRENCY RISK

The following limits are in accordance with and have been approved under the now repealed section 143 of the Local Government Act 1989 and accord with section 103 of the Local Government Act 2020.

ITEM	APPROVED LIMITS
Foreign Currency Exposure Hedging	In accordance with current Victorian Government policy, all material foreign exchange risk is to be hedged.
Foreign Currency Risk Management Products	Usage of foreign currency risk management products is restricted to bona fide hedging purposes only. Transactions of a speculative nature are not allowed.
Spot & Forward FX Contracts	Limited to total exposures in terms of volume and time.

Schedule 3 CREDIT RISK

The following limits have been approved by the Income and Investments Panel

Rating *	Authorised Deposit Taking Institution (ADI)	Managed Funds	Other Rated Entities	Total Portfolio Limits
AAA:	$60M	$25M	$15M	Unlimited
AA+, AA, AA- : Tier one bank	$40M	$15M	$5M	Unlimited
A+, A, A- :	$20M	$0	$2.5M	50%
BBB+,BBB (no negative watch):	$15M	$0	$0	25%

Unlimited exposure is permitted to the Commonwealth of Australia and the State of Victoria (TCV).

* Standard & Poors (long term rating) or Moodys or Fitch equivalent.
* Long Term Ratings of all counterparties to be regularly reviewed.

Where there are split ratings the lowest rating is to apply.

RATINGS COMPARISON TABLE

Moody's	Standard & Poor's	Fitch
Long-term	Long-term	Long-term
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB

A minimum of three quotes shall be obtained from authorised deposits-taking institutions before investing, rollover or re-investing funds.

The Treasury Team is to document any embedded structuring within an instrument where necessary to ensure all risks exposures are understood.

In the event that it is not possible to spread the risk across counterparties or where the efficient management of cash is not served by the strict application of deposit balances

Schedule 3 (Cont'd)   CREDIT RISK – CONTINUED

with counterparties, the Treasury team must seek permission from the CFO (or the Director of Finance, Rates and Investments as delegate) to apply an exception to the above limits. The exception must be that any investments or cash holdings are held by Commonwealth of Australia guaranteed entities, State Government of Victoria guaranteed entities or tier one banks.The exception cannot be for amounts greater than $100m and must be documented and reported to the Income and Investments Panel.
If the mar

COUNTRY RISK

As part of the council's risk diversification strategy surplus funds are invested with APRA's Approved Authorised Deposit Taking Institutions. Some of these institutions are Foreign Subsidiary Banks. As the owner entity's credit rating may be dependent upon the sovereign rating head office country of domicile the council will limit its exposure to Foreign Subsidiary Banks to a maximum of 25% of the investment portfolio. APRA's approved Foreign Subsidiary Banks are listed at http://www.apra.gov.au/adi/pages/adilist.aspx.

Note the Council does not invest in branches of foreign banks as they may not be subject to the same level of regulatory scrutiny as Foreign Subsidiary Banks by APRA.

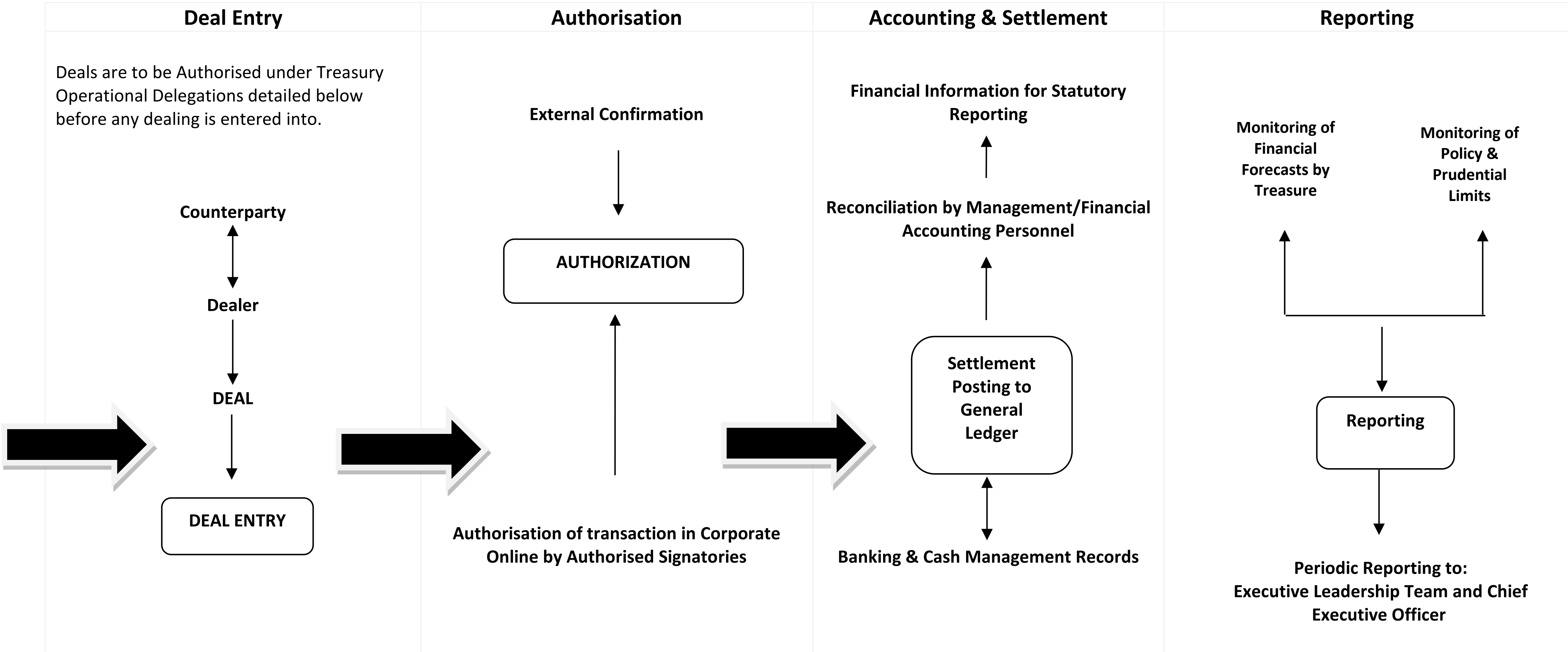
Schedule 4 APPROVED INSTRUMENTS

The following limits are in accordance with and have been approved under the now repealed section 143 of the Local Government Act 1989 and accord with section 103 of the Local Government Act 2020.

CATEGORY	COUNTERPARTY	INSTRUMENT
Investments	As per Council approved risk category (refer Schedule 3)	Deposits with an Australian Authorised Deposit Institution, TCV, Foreign Subsidiary Bank and Branch of a Foreign Bank; Securities of (or guaranteed by) the Commonwealth; Securities of (or guaranteed by) a State or Territory of the Commonwealth; certificates of deposit issued by a bank; and bills of exchange which have been accepted or endorsed by a bank. VFMC Managed schemes that; have a rating of AAm or a rating of Aaf from Standard and Poors Australian Ratings; are registered under section 601EB of the Corporations Law; and are liquid within the meaning of section 601KA(4) of the Corporations Law and have a constitution that provides for members to withdraw from the scheme All investments are to be denominated in AUD. The following investments instrument are prohibited: securities issued by a municipal corporation or other local governing body investment in leveraged or structured bonds leveraging (borrowing to invest) of the investment portfolio speculation derivative based instrument (excluding floating rate notes)

		Investment in leveraged or structured bonds is also not permitted. Use of leveraging of the investment portfolio is prohibited Use of the investment portfolio for speculation is prohibited
Risk Management Products	Treasury Corporation of Victoria (TCV) and Banks.	To manage the value of liabilities against interest rate risk: Interest Rate Forward; Interest Rate Swaps; Interest rate Options options on these arrangements; any combination of the above; options for the purchase or sale of securities issued by TCV; and forward rate agreements. Forward rate agreements or over the counter options require the express approval of the Chief Financial Officer Usage of all products is restricted to bona fide hedging purposes only and explicitly excludes structured products,
Loan Products		Overdrafts Term Loans

Schedule 5 TREASURY MANAGEMENT TRANSACTION PROCESSING FRAMEWORK



AUDIT FUNCTION

Schedule 6 TREASURY OPERATIONAL DELEGATIONS

	APPROVAL				
Financial Function/Transactions	Council	Chief Financial Officer	Director of Finance Rates and Investments/Financial Controller	Treasurer (see Financial Controller)	Treasury team staff
Invest/ Redeem Corporation's Funds	Unlimited	$50M	$30M	$5M	$0
All borrowing arrangements/facilities	Unlimited	$0 Under CEO delegation	$0	$0	$0
Hedging - Financial Risk Management Products (FX)		$10M	$10M	$5M	$0
Arrange Debt Retirement Transactions		$0	$0	$0	$0

Any issue of debt can only be authorised by Council as part of the Annual Budget.

The City Of Melbourne Authorised Signatories are empowered to:

- transfer funds between the Corporation's bank accounts as and when necessary;
- authorise the payment of interest and loan maturities when due;
- authorise the payment of expenses, premiums and ancillary costs associated with funding, investment and risk management activities; and
- execute all documents which are necessary to carry into effect the transactions or arrangements arising out of the activities contained within this Schedule.

The Authorisation of these transactions are to be undertaken by any two authorised signatories jointly. The Treasury team is prohibited from authorising any transfer of funds to an external entity.

Authorised Signatories are to be reviewed on at least a quarterly basis.

CITY OF MELBOURNE

Financial Sustainability Policy

Effective Date: May 2023

Contents

1. PURPOSE AND OBJECTIVES

As per the Section 9(2) of the Local Government Act 2020 (LGA 2020), Council recognises that the ongoing financial viability of the Council is to be ensured. Moreover, as per the Section 101 and 102 of the Act:

- Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans
- Council must monitor and manage prudently its risks in relation to its financial viability
- Council financial policies must seek to provide stability and predictability in the financial impact on the municipal community

The Financial Sustainability Policy provides parameters for Council to operate in a financially sustainable manner whilst providing stability and predictability in the financial impact on the municipal community.

The Financial Sustainability ensures that Council has regards to its financial risks and viability while adhering to the statutory requirements in the following aspect:

a. Asset and capital management
b. Borrowing and liquidity risk
c. Surplus and deficits
d. Rates and other revenue
e. Expenditure

The objectives of the Financial Sustainability Policy are:

a. to ensure Council's ongoing financial sustainability
b. to ensure Council manage and monitor its risks prudently
c. to ensure Council provides financial stability and predictability in the financial impact on the municipal community

2. SCOPE

The Policy

a. applies to Council when considering and determining the budget and long-term financial plan

b. applies to all Council employees who make decisions or provide advice regarding assets and capital management, borrowing and liquidity risk, surplus and deficits, rates and other revenue, capital investment and any other expenditure

c. will be adhered to in developing Council's budget and long term financial plan

3. DEFINITIONS

Adjusted Underlying Revenue means total income other than:

- Non-recurrent capital grants to fund capital expenditure
- Non-monetary asset contributions
- Contributions to fund capital expenditure from other sources other than those referred to above

Adjusted Underlying Surplus (or Deficit) means adjusted underlying revenue less total expenditure

Asset Expansion Expenditure means expenditure that extends the capacity of an existing asset to provide benefits to new users at the same standard as is provided to existing beneficiaries

Asset Renewal Expenditure means expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability

Asset Upgrade Expenditure means expenditure that:

a. enhances an existing asset to provide a higher level of service; or
b. increases the life of the asset beyond its original life;

ASX means Australian Stock Exchange.

Beneficial Enterprises:
In alignment with Section 110 Beneficial Enterprises of the LGA 2020, for the purpose of performing its role, a Council may participate in any of the following beneficial enterprises:

a. become a member of a corporation;
b. participate in the formation of a corporation, trust or other body;
c. acquire shares in a corporation, trust or other body;
d. enter into a partnership or joint venture with any other person or body.

Capital Improved Value means market value of a property and is measured at the end of the year and includes all valuation adjustments (e.g. supplementary valuations)

Current Assets are assets that the council expects to recover or realise within the following financial year

Current Liabilities means obligations or liabilities that are due to be settled, or paid, within one year

EBITDA means earnings before interest, tax, depreciation and amortisation

ELT means Executive Leadership Team

Equity Investment: Investment in shares/equity investments can either be listed or unlisted. Listed equity investments are publicly traded on an exchange. Unlike unlisted equity investments, listed equity offers greater liquidity and transparency of information and hence makes for a more attractive investment option. The Council commits to not directly investing in any fossil fuel and gaming companies into the future

Interest Bearing Loans and Borrowings means a loan or borrowing in which the debt is expressed as a principal amount and interest is calculated, charged and collected on unpaid balances

Interest and Principal Repayments means repayments made on principal amounts and/or interest from interest bearing loans or borrowings, where the debt is expressed as a principal amount and interest is calculated, charged and collected on unpaid balances

LGPRF means Local Government Performance Reporting Framework

New Asset Expenditure means expenditure that creates a new asset that provides a service that does not currently exist;

Non-current Liabilities means financial liabilities that provide financing on a long-term basis and are not due for settlement within twelve months after the reporting period

Non-recurrent Grant means a grant obtained on the condition that it be expended in a specified manner and not expected to be received again during the period covered by the Financial Plan

NPV means Net Present Value

Number of property assessments means the number of rateable properties as at 1 July

Other investment approved by the Minister
This can include any other asset classes approved by the Minister (if approval is needed for the investment)

Own-Source Revenue means adjusted underlying revenue excluding revenue which is not under the control of Council (including government grants)

PPSA refers to the Personal Property Securities Act 2009 (Cth)

Property
Direct property investments largely include retail properties and car parks which provide rental income and capital growth but which can be illiquid.

Properties that are not listed in the Council's Investment Property list (as maintained in accordance IAS 40 Investment Property), do not form part of the capital investment portfolio. The property should generate an income and may experience capital growth

Population means the resident population of the municipal district estimated by Council

Rate Revenue is revenue from general rates, municipal charges, service rates and service charges (e.g. garbage, recycling and organic charges) levied on rateable properties

Recurrent Grant means operating or capital grant other than a non-recurrent grant

Restricted Cash means cash and cash equivalents and financial assets within the meaning of the AAS that are not available for use other than for the purpose for which it is restricted and includes cash that will be used to fund carry forward capital works from the previous financial year. Items which are considered to be restricted under the definition are:

- trust funds and deposits
- statutory or non-discretionary reserves
- cash held to fund carry forward capital works

- conditional grants unspent

Term deposits with an original maturity of greater than 90 days (i.e. other financial assets) are also considered to be restricted under this definition

Security Interest means any:

a. security interest as defined in section 12(1) or section 12(2) of the PPSA;
b. security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement;
c. right, interest or arrangement which has the effect of giving another person a preference, priority or advantage over creditors including any right of set-off;
d. right that a person (other than the owner) has to remove something from land, easement, public right of way, restrictive or positive covenant, lease, or licence to use or occupy; or
e. third party right or interest or any right arising as a consequence of the enforcement of a judgment,

or any agreement to create any of them or allow them to exist.

TCV means the Treasury Corporation of Victoria.

Unrestricted Cash means cash and cash equivalents other than Restricted Cash

VAGO means Victorian Auditor General Office

Value of Infrastructure means written down value of infrastructure assets per the financial statements. Infrastructure assets are defined as all property, plant, equipment and infrastructure assets, excluding land.

4. FINANCIAL SUSTAINABILITY POLICY STATEMENTS

For the purpose of financial sustainability, if Council is considering discretionary projects (e.g. projects other than sealed road resurfacing, unsealed road resheeting) and new assets/asset renewal/upgrade that will yield in non-strategic assets, Council will assess the financial viability of the proposed projects (by way of including a financial assessment within the business cases) to ensure the Council will still meet its financial sustainability policy while delivering community benefits.

Policy Statements:

Section 101 of LGA 2020, Financial Management Principles states that

> *Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans*

The following are ratios that that are applied to measure the Council's financial sustainability, Council will aim to operate within the expected range of:

Efficiency

- Expenses per Property Assessment ($2000 - $5000)
- Average rate per Property Assessment (above $2000)

Liquidity

- Current assets compared to current liabilities (80 to 200%)
- Unrestricted cash compared to current liabilities (10 to 300%)

Obligations

- Loans and Borrowings compared to rates (0-70%)
- Loans and Borrowings repayment to rates (0-20%)
- Non-current Liabilities compared to own source revenue (2-70%)
- Asset renewal and upgrade compared to depreciation (40 to 160%)
- TCV Indebtedness (0-60%)
- TCV Interest Coverage Ratio (≥ 200%)
- Internal financing ratio (≥ 75%)

Operating Position

- Adjusted underlying surplus (or deficit) (-20 to 20%)

Stability

- Rates compared to adjusted underlying revenue (30 to 80%)
- Rates compared to property values (0.15 – 0.75%)

Sustainable Capacity

- Expenses per head of municipal population ($800 to $4000)
- Infrastructure per head of population ($3,000 to $40,000)
- Own-source revenue per head of population of at least $2,000
- Recurrent grants per head of population of at least $100

Council undertakes that TCV covenants (TCV Indebtedness and TCV Interest Coverage Ratio) must be complied with at all times as per the TCV Loan Agreement. In the event of default, in addition to any other rights provided by law, the outstanding moneys shall become immediately due and payable to TCV, and TCV may exercise any or all of its rights, remedies, powers or discretions under the Security Interest granted under the TCV Loan Agreement, without the need for any demand or notice to be given by TCV.

Breach of the above ratios indicate that Council is at risk of not operating in a financially sustainable manner. Council undertakes that it will rectify breaches of the ratios within a reasonable timeframe.

As part of the Council's Financial Sustainability, Council recognises that borrowing for discretionary capital projects can be used as a source of funding to benefit present and future ratepayers. To provide the appropriate parameters aligned with LGA 2020 Section 101 Financial Management Principles, Council has developed the following borrowing principles:

a. Council will not borrow to fund operating expenditure (other than for short term working capital needs as cash flows dictate), recurrent or regular capital works, and non-discretionary capital investment. These types of expenditure will be funded from operating revenue streams.

b. Borrowings used to finance Capital Investment for Capital Discretionary and Strategic Purpose will not be drawn down until the commencement of the project and shall include a repayment plan contained in a business case

c. The term of any loan should not exceed the life of the asset

d. Council will not borrow to participate in beneficial enterprises where it will make Council's total risk exposure exceeding its total investment

e. Council will not enter into a lease (as per defined by AASB 16 Lease) where it will make Council breach this policy

To enhance Council's financial viability, reduce reliance on rates income and support Council's effort to achieve Rates to Adjusted Underlying Revenue of maximum 80%, Council aims to improve the performance of its capital investment portfolio and strategic income assets.

Capital investment is defined as investment on Council's strategic assets (excluding placement of any money in accordance with Section 103 Investments of LGA 2020), beneficial enterprises (equity and debt investments), investment property, and other commercial investments/investment partnership.

Capital Investment can be for:

1. Non-Discretionary Purpose
    a. Mandatory: Investment to assets to meet legislative/regulatory and safety requirements.
    b. Critical Assets: Existing assets/services which if not continued/maintained in its current state could result in significant disruption to customers, unacceptable business continuity risk, significant maintenance costs above current levels and/or increase operational risks including safety.
    c. Council Unplanned (Urgent): Assets/services that must be delivered or the Council will face extreme/high reputation risk and damage. The need to invest usually arises in the short term, within the current financial year, as a one-off/emergency response to something. Can only occur if directed/approved by CEO (cannot be at management discretion)
2. Discretionary Purpose
    a. Transformation: Projects that have significant impact on driving one or more Council Goals/Services. Outcomes may introduce a stable, material new revenue stream (e.g. that contributes 5% or more of current revenue).

b. Performance: Assets/services that directly contribute to a higher service standard/outcome. Includes revenue generation; exclude operating budget. Aligned to asset category of new and upgrade.
c. Productivity: Assets/services that directly improve efficiency in Council's ways of working. Aligned to asset category of new and upgrade
d. Innovation: Drive both "internal" transformation (streamline, automate for efficiency and growth) and external to meet emerging citizens and business requirements and opportunities.

3. Strategic Purpose

Strategic purpose investment is an investment in beneficial enterprises, investment properties and any other commercial investment/investment partnership that provides a strategic benefit to the Council.

5. CAPITAL INVESTMENT DECISION

5.1. The Council adopted this policy to secure a financially sustainable capital investment decision by way of ensuring that:

a. Discretionary and strategic purpose capital investment are based on three objectives:

i. Being able to achieve an acceptable financial ROI (mandatory)

ii. To perform its role as a Council as required by s110(1) of LGA 2020 (mandatory)

iii. To meet the strategic development objectives of the Council (highly desirable)

Any discretionary and strategic purpose capital investment/investment partnership shall be supported with a business case that contains a financial evaluation section.

b. Operating objectives are to reduce risk through diversification, manage liquidity, and ensure returns are sufficient to meet financial target

c. If appropriate, seek approval from the Minister to invest in any other manner

d. Allowing discretionary/strategic purpose capital investment projects to be conducted to deliver return which are assessed on the basis of:

i. Commercial returns

The hurdle rate is the higher of:

1) Annualised return of the relevant industry indices as listed in the ASX (if no relevant industry indices is available, then the price return of ASX 200 index will be used) for the past 5 to 10 years (depending on the forecasting period). Hurdle rate benchmarks for discretionary projects are specified in Schedule 1; or

2) 150% of 10-year Australian government bond yield; or

3) 5-year simple average of the 10-year Australian government bond yield, plus a 3% risk premium.

ii. Positive NPV from discretionary/strategic capital investment projects within the forecast period of 10 years or the useful life of the asset (whichever is applicable)

For the purpose of the financial evaluation of Council's business cases, the assessment framework above must be used.

e. Affirms its commitment to clean energy, the United Nation's Sustainable Development Goals and climate leadership through its capital investments

f. Provides for the divestment of capital investment or assets that have reached their maximum potential in achieving return and/or not considered to be of strategic importance

g. Discretionary and strategic investment are conducted to maintain or improve the Council's outcomes in accordance with its strategic objectives and priorities, while ensuring the strategic and financial benefits outweigh the financial and reputational risks

5.2. The discretionary and strategic capital investment decision must have regard to the circumstances and may also take into account the following matters when exercising the capital investment:

a. The risk involved in making, and the likely return from, the capital investments having regard to Council's objectives

b. The desirability of diversifying investments

c. The need to maintain the real value of the capital or income from capital investment

d. The risk of capital or income loss or depreciation

e. The potential for capital appreciation

f. The length of the proposed capital investment

g. The costs of making the proposed capital investment

5.3. The capital investment principles (as per s101 of the LGA 2020) require that the Council's:

a. financial decisions seek to provide stability and predictability in the financial impact on the municipal community

b. financial risks are monitored and managed prudently having regard to economic circumstances

6. CAPITAL INVESTMENT GUIDELINES

6.1 Capital Investment Objectives

The Council recognises that risk (i.e. the uncertainty of future events), volatility (i.e. the potential for variability of asset values), and the possibility of loss in purchasing power (due to inflation) are present to some degree in all types of capital investment vehicles. While high levels of risk are to be avoided, the assumption of risk is warranted as long as it is compensated in order to allow the investment managers the opportunity to achieve satisfactory long-term results consistent with the objectives and fiduciary character of the capital investment portfolio. In general, the Council has a low risk appetite for:

- Pursuing a capital investment strategy that puts at high risk the financial sustainability of the Council over the medium-to-long term
- Application of discretionary capital projects that are not planned and executed in a sustainable and prudent manner

Taking these into consideration, the Council's capital investment objectives are to:

- ensure sufficient funds are available when needed to support the purpose and strategic plan of the Council
- have a strong and adaptable balance sheet through optimised use and allocation of capital
- maximise returns while effectively managing risks associated with those investments.

6.2 General Capital Investment Principles and Philosophy

a. All capital investment must comply with LGA 2020 and the Local Government (Planning and Reporting) Regulations 2020
b. All capital investment opportunities should be prioritised after taking into consideration the Council's nature of obligations to conduct the capital investment (whether mandatory or non-mandatory capital investment), the strategic value to the Council, the importance of the benefits and the level of risks involved
c. The standard of prudence (including financial and risks) is to be used by the Council staff. This includes having in place appropriate reporting requirements that ensure the capital investments are being monitored, reviewed and overseen regularly.
d. All Council staff involved with the capital investment decisions shall follow the Council's appropriate code of conduct and refrain from personal activities that would conflict with the proper execution and management of the Council's capital investments. This includes activities that would impair the staff's ability to make impartial decisions. Any actual, potential or perceived conflict of interest must be disclosed to the Chief Financial Officer.
e. Any medium or higher complexity (circa >$5m) discretionary capital investment and strategic investment can be made only if a business case is prepared and the investment is approved by ELT and if required Council in accordance with the Council's delegations framework.

6.3 Any business case for medium or higher complexity (circa >$5m) discretionary capital investment and strategic investment must include the following:

a. Details of how the investment aligns with the Council's strategic objectives and priorities

b. An assessment of the financial benefits and risks, including how the proposed transaction will impact the Council's 10 Year Financial Plan
c. Financial projections including a detailed cash flow forecast
    - In the case of medium or higher complexity (circa >$5m) discretionary capital investment, the cash flow forecast must include construction costs, any ongoing operating and lifecycle expenses, any related revenue streams and the key assumptions used, including funding and financing costs
d. In the case of participation in a beneficial enterprise
    - the total equity investment that will be provided to the enterprise
    - external valuation justifying the acquisition price (if acquiring an interest in an established entity)
    - the governance structure of the entity including any proposed Board appointments

6.4 Capital Investment Evaluation and Prioritisation

For preparation of the 4 Year Capital Works Program and 10 Year Indicative Capital Works program through the annual budget cycle and capital project requests received outside this cycle, evaluated projects are to be prioritised against principles defined under this policy or by Council resolution.

Requests are evaluated against the following principles:

- Capital investment for Non-Discretionary purpose will be prioritised
- Capital investment for existing and new assets will be evaluated for their whole-of-life costs, that the projects/assets are an effective spend and use of funds for the outcomes being achieved and on a relative benchmarked basis, i.e. that they are effective value, economically viable and suitable solutions to meet Council's defined levels of services
- Council will demonstrate long term financial sustainability by prioritising the above evaluated projects to optimise short and long-term planning needs, service levels and standards, risks and costs and community expectations
- Capital works programming must be directly linked to Council's strategic objectives and adopted Asset Management Plan priorities which consider feedback through community consultation
- Priority will be given to projects where the majority of funding comes from sources other than Council (e.g. Developer Contributions and grants)
- The Capital investment Program must be fully funded for renewal and new works or the source of funding identified and secured
- Capital investment must be delivered by the required completion date and within approved budgets. Update to the budgets and timeline may require an updated business case

6.5 Asset Allocation

The Council's capital investment portfolio covered investments related to strategic and discretionary assets, beneficial enterprises, investment property and other commercial investments/projects (excluding projects for non-discretionary purpose) designed to deliver the Council's accepted risk profile and return of the portfolio.

6.6 **Unique needs**

- The Council does not pay any income tax and is exempt from most other taxes. This implies that the Council will not benefit from dividend imputation credits that may arise from investing in Australian shares. While this means fully franked shares do not offer any added benefit, unfranked shares may still be beneficial.
- The Council is also exempt from Stamp Duty on the sale of property.
- The concept of Socially Responsible Investment appeals to the Council where practical as part of its strategic objectives

Socially Responsible Investment is defined by the United Nations Principles for Responsible Investment 2014 as an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole.

6.7 **Risk Tolerance**

- The Council is reasonably risk averse and any investment taken shall deliver a satisfying risk-adjusted return to the Council. All capital investment must be taken prudently having regards to the risk.

6.8 Key Constraints

- Council currently holds shares in unlisted Subsidiary Companies (Citywide Services Pty Ltd, Queen Victoria Market Pty Ltd) and associates (Regent Management Pty Ltd and Procurement Australasia Pty Ltd). Any proposed changes to the operation/investment of these companies shall follow the constitutions of each subsidiary/associate and LGA 2020 section 110 and 111.

7. ROLES AND RESPONSIBILITIES

7.1. The Council

The Council is responsible for:

- Approving the Financial Sustainability Policy including any amendments to it; and
- Approving investments in capital investment, including investment in beneficial enterprise

7.2. The Investment Committee is responsible for, in consultation with the ELT:

- Making recommendations to the Council or its delegates regarding the strategy of the medium and long-term investment pools and reviewing on an annual basis
- Notifying Council or its delegates regarding the appointment and removal of fund managers as it relates to the medium and long-term investment pools
- Reviewing the performance of capital investments on a regular basis

8. MONITORING, REVIEW AND ASSURANCE

The Chief Financial Officer will establish internal controls and processes that will ensure investment objectives are met and that investments are protected from mismanagement including loss, theft or inappropriate use.
Any breach of this policy is to be reported to the ELT and rectified as soon as possible.
Any material breach of this policy will be reported immediately to the Council and ARC.

9. RECORDING AND REPORTING

On a quarterly basis, the Chief Financial Officer will provide a report to the ELT and the Finance, Governance and Risk portfolio that includes

- The performance of the medium and long term capital investment against targets and benchmarks; and
- Details of any breach of this policy

This policy is predicated upon the continuation of the high levels of transparency about capital investment decisions taken and planned within the portfolio

10. COMPLIANCE WITH THE GOVERNANCE PRINCIPLES

Section 9(1) of LGA 2020 requires Council to give effect to the overarching governance principles. Section 9(2) of LGA 2020 specifies the governance principles as follows:

a) Council decisions are to be made and actions taken in accordance with the relevant law **(Compliance with the law)**;
b) Priority is to be given to achieving the best outcomes for the municipal community, including future generations **(Achieve best outcomes for the community)**;
c) The economic, social and environmental sustainability of the municipal district, including mitigation and planning for climate change risks, is to be promoted **(Promote the sustainability of the municipality)**;
d) The municipal community is to be engaged in strategic planning and strategic decision making **(Engage the community in strategic planning and decision making)**;
e) Innovation and continuous improvement is to be pursued **(Strive for innovation and continuous improvement)**;
f) Collaboration with other Councils and Governments and statutory bodies is to be sought **(Collaborate with all other levels of government and government agencies)**;
g) The ongoing financial viability of the Council is to be ensured **(Secure the ongoing financial viability of Council)**;
h) Regional, state and national plans and policies are to be taken into to account in strategic planning and decision making **(Strategic planning and decision making must take into account plans and policies in operation at all levels)**;
i) The transparency of Council decisions, actions and information is to be ensured **(Council decisions, actions and information must be transparent).**

In developing the Financial Sustainability Policy the requirements of the governance principles have considered as summarised below:

	Governance Principle	Considerations
(a)	Compliance with the law	All relevant legal requirements have been considered in developing this policy
(b)	Achieve best outcomes for the community	Refer to the comments under (g) below
(c)	Promote the sustainability of the municipality	Refer to the comments under (g) below
(d)	Engage the community in strategic planning and decision making	Not applicable for this policy
(e)	Strive for innovation and continuous improvement	Not applicable for this policy
(f)	Collaborate with all other levels of government and government agencies	Not applicable for this policy
(g)	Secure the ongoing financial viability of Council	Security of Council’s financial viability has been the primary consideration in the development of this policy.
(h)	Strategic planning and decision making must take into account plans and policies in operation at all levels	Not applicable for this policy
(i)	Council decisions, actions and information must be transparent	This policy relates to internal management of Council’s finances and has met all of the relevant requirements of transparency within Council’s

		management and decision making processes.

11. POLICY REVIEW

The Financial Sustainability Policy will be reviewed:

a. at least every two years as it forms part of the long-term financial plan required by LGA 2020

b. as required by changed circumstances, including changes to legislation,

and any material changes will be reviewed by Audit and Risk Committee and endorsed by Council.

12. APPENDIX

Schedule 1

#	Investment category	Benchmark
1	Property	S&P ASX 200 A-REIT 10 Year Return Annualised (Price Return)
2	IT	S&P ASX 200 Information Technology 10 Year Return Annualised (Price Return)
3	Infrastructure	CPI (average forecast 4 years as per the Vic Govt) + 5% (as per VFMC benchmark)
4	Other industries	S&P ASX 200 10 Year Return Annualised (Price Return)

Schedule 2

Financial Sustainability Ratios

Victorian Auditor General Office (VAGO)

VAGO use the following financial indicators to assess Council's financial sustainability risks.

Indicator	Formula	Description
Capital Replacement Ratio (%)	Cash outflows for the addition of new infrastructure, property, plant and equipment / Depreciation	Comparison of the rate of spending on new infrastructure, property, plant and equipment with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowing is not an option. Cash outflows for infrastructure are taken from the cash flow statement. Depreciation is taken from the comprehensive operating statement.
Asset Renewal and Upgrade Expense to Depreciation Ratio (%)	Renewal and upgrade expenditure / Depreciation	This compares the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 1.0 indicate that spending on existing assets is faster than the depreciation rate.
Net Result Margin	Net result / Total Revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating statement.

Indicator	Formula	Description
Adjusted Underlying Result	Adjusted underlying surplus (or deficit)/ Adjusted underlying revenue	This measures an entity's ability to generate surplus in the ordinary course of business—excluding non-recurrent capital grants, non-monetary asset contributions, and other contributions to fund capital expenditure from its net result. A surplus or increasing surplus suggests an improvement in the operating position.
Liquidity	Current assets / current liabilities	This measures an entity's ability to pay existing liabilities in the next 12 months. A ratio of one or more means that an entity has more cash and liquid assets than short-term liabilities
Internal financing	Net operating cashflow/ net capital expenditure	This measures an entity's ability to finance capital works from generated cash flow. The higher the percentage, the greater the ability for the entity to finance capital works from its own funds. Net operating cashflows and net capital expenditure are obtained from the cashflow statement
Indebtedness	Non-current liabilities/ own-sourced revenue	This assesses an entity's ability to pay the principal and interest on its borrowings when they are due from the funds it generates. The lower the ratio, the less revenue the entity is required to use to repay its total debt. Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.

Local Government Performance Reporting Framework

To measure Council's performance, LGPRF use the following ratios:

Indicator	Formula	Data use/community outcome	Expected Range
Stability			
S1 – Rates compared to adjusted underlying revenue	Rates revenue / adjusted underlying revenue	Assessment of whether council can generate revenue from a range of sources to fund services and activities. Lower proportion of rate to underlying revenue suggests greater stability.	30% - 80%

Indicator	Formula	Data use/community outcome	Expected Range
S2 – Rates compared to property values	Rates revenue / Capital improved value of rateable properties in the municipality	Assessment of whether councils set rates at an appropriate level. Lower proportion of rate revenue suggests a reduced rate burden on the community.	0.15% - 0.75%
Efficiency			
E2 – Expenses per property assessment	Total expenses / number of property assessments	Assessment of whether resources are being used efficiently to deliver services	$2,000 - $5,000
E4 – Rates per property assessment	Total rate revenue / number of property assessments	Assessment of whether resources are being used efficiently to deliver services	$700 - $2,000
Sustainable Capacity Indicators			
C1 – Total expenses per municipal population	Total expenses / population	Assessment of the extent to which population is a key driver of council's ability to provide services to the community. Lower proportion of expenses relative to population suggests an improved capacity to provide services	$800 - $4,000
C2 – Infrastructure per head population	Value of infrastructure / population	Assessment of the extent to which population is a key driver of council's ability to provide services to the community. Higher proportion of infrastructure value relative to population level suggests greater council commitment to improving infrastructure.	$3,000 - $40,000
C4 – Own source revenue per population	Own source revenue / population	Assessment of the degree to which councils generate revenue from a range of sources. Higher amount of own source revenue suggests greater capacity to delivery services.	$700 - $2,000
C5 – Recurrent grants per population	Recurrent grants / population	Assessment of the degree to which councils generate revenue from a range of sources. Higher amount of grant revenue suggests greater capacity to delivery community services.	$100 - $2,000
Liquidity			

Indicator	Formula	Data use/community outcome	Expected Range
L1 – Current Assets compared to Current Liabilities	Current assets/ current liabilities	Assessment of council's financial position. Higher assets relative to liabilities suggests councils are in a strong position	100% to 400%
L2 – Unrestricted Cash compared to Current Liabilities	Unrestricted cash/ current liabilities	Assessment of council's abilities to pay bills on time. Higher unrestricted cash relative to liabilities suggests councils are able to pay bills in a timely manner	10% to 300%
Obligations			
O2 – Loans and borrowings compared to rates	Interest bearing loans and borrowings/ rate revenue	Assessment of whether council's level of interest-bearing loans and borrowings are appropriate to the size and nature of council's activities. Demonstration of council managing its borrowing strategy in relation to the revenue it raises.	0% to 70%
O3 – Loans and borrowings repayment compared to rates	Interest and principal repayments on interest bearing loans and borrowings/ rate revenue	Assessment of whether council's level of repayments on interest-bearing loans and borrowings are appropriate to the size and nature of council's activities. Demonstration of council managing its borrowing strategy in relation to the revenue it raises.	0% to 20%
O4 – Non-current liabilities compared to own source revenue	Non-current liabilities/ own source revenue	Assessment of whether council's long term liabilities are appropriate to the size and nature of council activities. Lower proportion of non-current liabilities suggests greater capacity to meet long-term obligations	2% to 70%
O5 – Asset Renewal and Upgrade Expense to Depreciation Ratio (%)	Asset renewal and asset upgrade expenditure/ asset depreciation	Assessment of whether council assets are being renewed or upgraded as planned. It compares the rate of spending on existing assets through renewing, restoring, replacing or upgrading existing assets with depreciation. Ratios higher than 1.0 indicate there is a lesser risk of insufficient spending on Council's asset base	40% to 130%

Indicator	Formula	Data use/community outcome	Expected Range
Operating Position			
OP1 – Adjusted underlying surplus or deficit	Adjusted underlying surplus (or deficit)/ adjusted underlying revenue	Assessment of whether council can generate a surplus. A significant surplus (or deficit) achieved in a particular financial year does not necessarily indicate good or bad financial performance in that year	-20% to 20%

<u>TCV Loan Covenants</u>

As per the TCV loan agreement, the Council undertakes that:

1. It will ensure that the aggregate Interest Bearing Loans and Borrowings at all times does not exceed 60% of Own Source Revenue or otherwise such other level as prescribed by the Treasurer of Victoria in respect of the Council and notified by TCV to the Council from time to time.
2. It will ensure that the Interest Cover Ratio at all times is not less than 2.00:1.00 or otherwise such other ratio as prescribed by the Treasurer of Victoria in respect of the Council and notified by TCV to the Council from time to time.

Indicator	Formula	Data Use	Expected Range
TCV Indebtedness	(Interest bearing loans and borrowings + Current portion of lease liability + Non-current portion of Lease Liability) / Own source revenue	TCV loan covenant	At all times does not exceed 60% of Own Source Revenue or otherwise such other level as prescribed by the Treasurer of Victoria in respect of the Council and notified by TCV to the Council from time to time.
TCV Interest Coverage Ratio	Earnings Before Interest, Tax, Depreciation and Amortisation / Interest Expense	TCV loan covenant	At all times not less than 2.00:1.00 or otherwise such ratio as prescribed by the Treasurer of Victoria in respect of the Council and notified by TCV to the Council from time to time.

Schedule 3

References

a. **Local Government Performance Reporting Framework (LGPRF)**
The Victorian Government established the Local Government Performance Reporting Framework (LGPRF) in 2014. It outlines the measures Council must report in its performance report, which forms part of Council's Annual Report. Certain indicators must also be included in Council's Budget and Strategic Resource Plan and Long-Term Financial Plan.

b. **The *Local Government Act 2020***

- **Section 101 Financial Management Principles** states that
  (1) The following are the financial management principle:
  - *a. Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans*
  - *b. Financial risks must be monitored and managed prudently having regard to economic circumstances*
  - *c. Financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community*
  - *d. Accounts and records that explain the financial operations and financial position of the Council must be kept.*

  (2) For the purposes of the financial management principles, financial risk includes any risk relating to the following:
  - *a. The financial viability of the Council*
  - *b. The management of current and future liabilities of the Council*
  - *c. The beneficial enterprises of the Council*
- **Section 102 Financial Policies** states that
  (1) A Council must prepare and adopt financial policies that give effect to the financial management principles
  (2) A financial policy must include any matters prescribed by the regulations

c. **Victorian Auditor General's Office (VAGO)**
VAGO examines and reports on the management of resources within the public sector.

d. **Local Government (Planning and Reporting) Regulations 2020**
The objective of these Regulations is to prescribe:

(a) The content and preparation of the financial statements of a Council; and
(b) The performance indicators and measures to be included in the budget, revised budget and annual report of a Council; and
(c) The information to be included in a Financial Plan, budget, revised budget and annual report; and
(d) Other matters required to be prescribed under Part 4 of the Act.

CITY OF MELBOURNE

Governance Protocols for Wholly-Owned Subsidiary Companies

Effective Date: May 2023

Contents

Statement of purpose of governance protocols

The governance protocols deal with the policies and procedures the corporate entity, the City of Melbourne (the Council), has in place to ensure consistency in governance practices between the Council, including Council Committees, and its wholly-owned Subsidiary Companies:

- CityWide Service Solutions Pty Ltd (CityWide); and
- Queen Victoria Market Pty Ltd (QVM).

These governance protocols document the roles and responsibilities, reporting requirements and other issues, to enable greater clarity, transparency and accountability.

In documenting these governance protocols, we have taken into account the ASX Corporate Governance Council Corporate Governance Principles and Recommendations, as updated in 2019, and other better governance practices.

Management reviews these corporate governance protocols every 2 years or whenever appropriate, and recommends changes as necessary to the Council.

All new Subsidiary Board Members should be given a copy of these protocols as part of their induction process.

The Chief Financial Officer is responsible for the maintenance and review of these protocols to the Council and communication of any changes to the Subsidiary Companies. These protocols will be reviewed:

a. Every 2 years; or
b. Whenever appropriate

to ensure they stay current and relevant to the changing environment

A. Government Framework

A.1 Corporate governance

Corporate governance is a system or process by which corporate entities, exercising accountability to shareholders and responsibility to stakeholders, are directed and controlled to achieve sustainable improvement in shareholder value.

In the context of these protocols, corporate governance refers to the roles, responsibilities and relationships that exist between the Council, its Committees and Executive Officers and the Boards of the wholly-owned Subsidiaries, and the systems that are in place to ensure that responsibilities are understood and met.

A.2 Governance framework for wholly-owned Council subsidiary boards

The Council governance framework incorporates the following key elements:

- Governance protocols: to create a structured and consistent process for governance and communication between Council committees, Council Officers and Subsidiary Boards;
- Board charters (codes of governance practices): to ensure that the board of each Subsidiary Company has appropriate policies and procedures in place for the governance of their Company; and
- Committee structure: that allows specific issues to be covered by either the Board or a Committee as determined by each Subsidiary Company Board.

A.3 Legislative restrictions

The *Local Government Act* 2020 (LGA) and constitutional items included in the constitutions of each Subsidiary Company places the following restrictions on the Subsidiary Companies.

- **Risk management**
  - **a.** Section 101 of the LGA requires Council to manage prudently financial risk of the beneficial enterprises of the Council
  - **b.** Section 111 of the LGA requires that Council must assess the total investment involved and the total risk exposure and ensure that its total risk exposure does not exceed its total investment. As a result, Council will not borrow money to participate in a beneficial enterprise
  - **c.** Section 111 of the LGA requires Council to establish risk management arrangements
  - **d.** Section 111 of the LGA requires Council to implement regular performance monitoring and reporting arrangements in relation to the beneficial enterprise

For the purpose of managing risks associated with wholly-owned subsidiaries, the Council will assess and report the risk of the beneficial enterprises at minimum on a quarterly basis based on the wholly- owned subsidiaries' quarterly report.

Any material financial risk will be reported to the Chief Financial Officer and Council immediately

- **Borrowings**

For so long as the Council remains a shareholder, any wholly-owned Subsidiary Company of the Council may not exercise the power to borrow or raise money or enter into any transaction having the substantive effect of borrowing money from a person and/or company other than from the Council without the prior consent in writing of the Treasurer for the time being of the State of Victoria. (pursuant to each Subsidiary Company's constitution).

Any borrowings conducted by the wholly-owned Subsidiary must follow the agreement between Council and the Subsidiary and/or the condition of borrowing as per the Approval to Borrow granted by the Treasurer of Victoria on 13 Jan 2012, whichever applies. The subsidiary should inform the Council about the purpose of the borrowing and also provide any additional information required for reporting to the State Government.

- **National competition policy**

When competing in the market place for business, Council Subsidiary Companies shall not have competitive advantage pursuant to the principles originally developed under the National Competition Policy (in accordance with National Competition Policy and Local Government – A Revised Statement of Victorian Government Policy, January 2002).

B. STRATEGIC INTENT

B.1 Shareholder guiding principles

The guiding principles of the governance and communication arrangements with the Council are

- The Council exercises shareholder control;
- The relationship with the shareholder are detailed in these protocols for Subsidiary Companies;
- Each Subsidiary Company is managed in the best interests of the Company;
- Requirement for an annual statement of corporate intent and corporate plan;
- Subsidiary Company Chairpersons have formal access to the Lord Mayor and Chair of the Finance, Governance and Risk Portfolio Group Meeting;
- All communication is on the basis of continuous disclosure in a corporate culture of “no surprises”;
- The Subsidiary Boards and their Management maintain the highest standards of integrity, accountability and responsibility; and
- The key Council contact is the Chief Financial Officer

B.2 Purpose of Council Subsidiary Companies

The statement of corporate intent sets out the intentions and expectations for each of the wholly-owned Subsidiary Companies by the City of Melbourne for the coming financial year. The Statement of Corporate Intent and Corporate Plan should be submitted to the Council along with the Business Plan and Budget as per timeline outline in section “B.7 Strategic Planning Process”.

B.3 CityWide Service Solutions Pty Ltd (CityWide)

The principal objective of CityWide is to operate as a successful and profitable business so as to maximise the return (capital enhancement, annual dividend and tax equivalents) to the shareholder. In summary the objective is achieved by ensuring:

- Services are provided at a level of price and quality which retains the ongoing business of existing clients as well as attracting new ones;
- As per Article 91 (3) of CityWide’s constitution, for long as the Council remains a shareholder, the Company may not exercise the power to borrow or raise money or enter into any transaction having the substantive effect of borrowing money from a person other than the Council without the prior consent in writing of the Treasurer for the time being of the State of Victoria.
- As per Article 93 of CityWide’s constitution,
    a. (4) the members may comment on the business plan. The Company must consider any comments on the proposed plan that are made to it by the members within one month after the plan was submitted to the members
    b. (5) the Company must consult in good faith with the members following communication to it of the member’s comments, must make such changes to the plan as are agreed between the Company and the members and must deliver the completed plan to the members within two months after the plan was first submitted to the members.

c. (6) the business plan may be amended from time to time by the Directors subject to the approval of the members
d. (7) the Directors must not undertake any operations or activities not included in the business plan or make any expenditure in excess of the amount provided in the business plan, except in the case of emergency, the Directors may make such immediate expenditure as necessary for the protection of the safety of any person or the property of the Company. The Directors must promptly notify the members of any such expenditure.

- Maintenance of commercial pressure in the market place that is reflected in lower service delivery costs to the Council;
- Focus on customer service is developed and maintained;
- Staff are managed so that they perform their work to standards, promote individual growth, and ensure that their work is personally rewarding as well as providing greater flexibility and improved productivity for the Company;
- Company's structure, work practices and organisation are developed so as to maximise the use of resources and to provide a safe place in which to work;
- A moderating influence is exerted on the competitive environment for local government services; and
- Values of good corporate citizenship are always upheld.

B.4 Queen Victoria Market Pty Ltd (QVM)

The primary objective of QVM is to ensure that the market is a place where people go to experience Melbourne; the glorious fresh food, the array of goods, the vibrancy and the atmosphere. It is quintessential Melbourne; it shows our history and defines our future, and is a place where you feel welcome and at home.

In achieving this, the Company will:

- protect the underlying principles of a market;
- operate the Market to optimise financial and social returns;
- be an exemplar of sustainability, safety, health and wellbeing, education, Victorian grown and manufactured goods and tourism;
- provide access to all; and
- add to the Market experience.

B.5 Shareholder value

The test of a Board's effectiveness is its ability to increase shareholder value consistent with annual shareholder targets as issued as part of the subsidiary's Annual Strategic Planning process, without ignoring the interests of other stakeholders.

The Council, as custodians for the community, residents and ratepayers, and as shareholder, has the following expectations for each subsidiary in the medium to longer term:

- CityWide - profitable growth.

- QVM - as an important historical and cultural city icon and tourist attraction to remain wholly-owned by the Council, with a strong emphasis on sustainable profitability.

B.6 Wholly-owned stakeholder needs and expectations

The Directors of the Subsidiary Boards, the Council as shareholder, and its representatives on the Joint Nominations Committee, the Audit and Risk Committee and Council Executive Management in their decision-making and/or reviewing roles need to take a balanced approach when dealing with the needs and expectations of the shareholder and the other stakeholders.

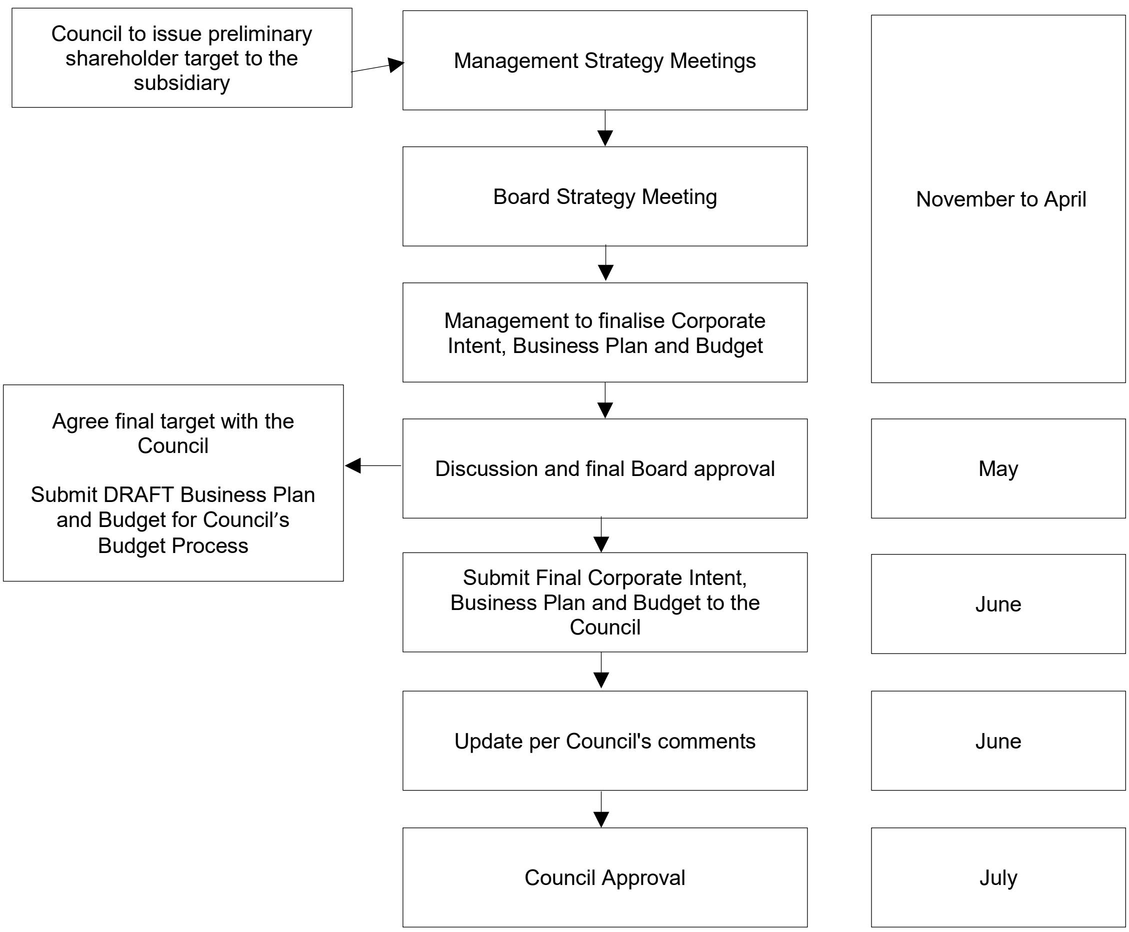
In the statement of corporate intent, the needs and expectations of the shareholder and the anticipated needs and expectations of the other stakeholders are to be detailed in the macro.

As perceptions change over time, the Subsidiary Boards, Subsidiary Company Management, the Council, the Committees and the Council's General Managers need to be alert to these changes and ensure they are taken into account in any decision-making and / or reviewing process.

B.7 Strategic planning process

The Council's Finance, Governance and Risk Portfolio Group Meeting is able to provide policy input in the early stages of the strategic planning process of the Subsidiaries by issuing detailed shareholder targets as a basis for the subsidiary's annual corporate plan. The Council or a Delegated Committee of Council is able to articulate expectations, priorities or objectives of Subsidiaries.

Annual Strategic Planning Process



The Subsidiary Board Directors' role is more than just adopting/approving the strategic plan. Directors add value to the strategic planning process by:

- Ensuring a participative strategy development process is in place;
- Rigorous probing and examination;
- Challenging underlying assumptions;
- Stretching management's thinking;
- Questioning the impact of trends, especially technology and communication, in a rapidly changing business environment; and
- Translating changes and initiatives from other industries and environments to which Directors are exposed.

B.8 Emergency disaster planning role (CityWide)

The Council's emergency management responsibilities are detailed in the *Emergency Management Act*. The Council is required to provide resources to assist with the control/containment during any emergency and support any recovery effort.

The Council's primary emergency management response is provided by CityWide through the Civil Infrastructure Services contract. In addition, CityWide can provide emergency callout resources through other Council service contracts i.e., street cleaning, waste management and tree maintenance.

These requests are initially received into the Council's security control room and are issued to CityWide to respond accordingly.

B.9 Review of strategy

Given the nature of the changing environment a Subsidiary Company may need at any time to change their strategy. Such changes may be needed because other opportunities arise or risks for the existing business become too high.

- In any event that requires significant changes to the strategic plan, the Chief Financial Officer is to be advised immediately and must seek approval from Council. A significant change is defined as that which could have a material effect on the profitability and/or value of the Subsidiary Company..

B.10 Annual business plan

Annual business plans are to be submitted to Council as per the time table in section B.7. At a minimum Business plans must adhere to a standard format as per Appendix C, with any additional information added that may be required.

1. PROTOCOL 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 Board charter (code of governance practices)

Board charters are to be established that detail the policies and procedures each Subsidiary Company Board has in place for managing the Board's affairs and the governance of their Company. By documenting Board procedures, there will be consistent implementation of Board policies. The charter is to be reviewed at least annually and submitted to the Council for information if any significant changes are made.

Included in the charter should be a formal statement of matters reserved to the Board and the delegated authorities to Senior Management

The charter is different to these governance protocols, which establish the policies between the Council and the Subsidiary Companies.

1.2 Undertake appropriate checks before appointing a director or senior executive

The following information about a candidate standing for election or re-election as a director should be provided to Council:

In the case of a candidate standing for election as a director for the first time: –

- Confirmation that the entity has conducted appropriate checks into the candidate's background and experience
- If the board considers that the candidate will, if elected, qualify as an independent director, a statement to that effect;

1.3 Letter of appointment for Directors

As soon as a candidate has consented to become a Director of a Subsidiary Company, the Board should formally confirm the appointment by means of a letter signed by the Chair.

This could contain information on:

- Term of appointment;
- Time commitment envisaged;
- Power and duties of Directors;
- Council's governance protocols for Subsidiary Companies;
- Board charter;
- Expectations regarding Committee work;
- Remuneration and expenses;
- Superannuation arrangements;
- Requirement to disclose Director's interests and any matter which affects the Director's independence;
- Fellow Directors;
- Induction process and continuing education arrangements;
- Board policy on access to independent professional advice;
- Indemnity and insurance arrangements;

- Confidentiality and rights of access to corporate information;
- A copy of the constitution;
- Organisational chart of management structure; and
- Review of performance by the Chair.

1.4 The Company Secretary

The role of the company secretary should include:

- Advising the board and its committees on governance matters;
- Monitoring that board and committee policies and procedures are followed;
- coordinating the timely completion and despatch of board and committee papers;
- ensuring that the business at board and committee meetings is accurately captured in the minutes; and
- helping to organise and facilitate the induction and professional development of directors.

Each director should be able to communicate directly with the company secretary and vice versa.

The decision to appoint or remove a company secretary should be made or approved by the board.

1.5 Diversity and Inclusion policy

The subsidiary company should:

(a) have and disclose a diversity and inclusion policy;

(b) through its board or a committee of the board set measurable objectives for achieving gender and people with diverse background in the composition of its board, senior executives and workforce generally; and

(c) disclose in relation to each reporting period:

  (1) the measurable objectives set for that period to achieve gender and people with diverse background;

  (2) the company's progress towards achieving those objectives; and

  (3) either:

    (a) with due regard for gender and ethnic diversity, in senior executive positions and across the whole workforce (including how the entity has defined "senior executive" for these purposes); or

    (b) if the company is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.31

1.6 Board, committees and individual directors evaluation

The performance of Senior Executives should be reviewed regularly against agreed measurable and qualitative indicators.

Senior Executive evaluation - The performance of Senior Executives should be reviewed regularly against agreed measurable and qualitative indicators.

2. PROTOCOL 2: STRUCTURE THE BOARD TO ADD VALUE

2.1 Duties of Councillors and Council Officers

How Councillors and Council Officers deal with confidential information received from the Subsidiary Companies is important for the following reasons:

- Confidential customer information involved;
- Commercial sensitivity;
- Corporate reputation; and
- Legal implications.

All data will be considered in the public domain unless Subsidiary Companies provide a rationale for when reporting is “Commercial-in-Confidence”. Confidential information or “Commercial-in-Confidence” information that Councillors and Council Officers may obtain from Subsidiary Companies needs to be treated in keeping with the requirements of the Corporations Act and as detailed in the LGA.

Subsidiary Directors, Subsidiary Company Management, Councillors and Council Officers should take all reasonable steps to ensure the exchange of information between parties is kept secure to avoid unauthorised disclosure

The LGA requires councillors and Council officers to have regard for the following:

- A Council is a body corporate with perpetual succession. (LGA s14 (1)(a))
- A Council may sue or be sued in its corporate name. (LGA s14 (1)(c))
- A Council is capable of doing and suffering all acts and things which body corporates may by law do and suffer and which are necessary or expedient for performing its functions and exercising its powers. (LGA s14 (1)(d))
- A Council must indemnify and keep indemnified each Councillor, member of a delegated committee and member of a Community Asset Committee against all actions or claims whether arising during or after their term of office in respect of anything necessarily done or reasonably done or omitted to be done in good faith:
    a. In the performance of a duty or a function or the exercise of a power under the LGA 2020,, the regulations or a local law or any other Act; or
    b. In the reasonable belief that the act or omission was in the performance of a duty or a function or the exercise of a power under the LGA 2020, the regulations or a local law or any other Act (LGA s43).
- LGA Section 125 Confidential Information

(1) Unless subsection (2) or (3) applies, a person who is, or has been, a Councillor, a member of a delegated committee or a member of Council staff, must not intentionally or recklessly disclose information that the person knows, or should reasonably know, is confidential information.

Penalty: 120 penalty units.

(2) Subsection (1) does not apply if the information that is disclosed is information that the Council has determined should be publicly available.

(3) A person who is, or has been, a Councillor, a member of a delegated committee or a member of Council staff, may disclose information that the person knows, or should reasonably know, is confidential information in the following circumstances—

(a) for the purposes of any legal proceedings arising out of this Act;

(b) to a court or tribunal in the course of legal proceedings;

(c) pursuant to an order of a court or tribunal;

(d) in the course of an internal arbitration and for the purposes of the internal arbitration process;

(e) in the course of a Councillor Conduct Panel hearing and for the purposes of the hearing;

(f) to a Municipal Monitor to the extent reasonably required by the Municipal Monitor;

(g) to the Chief Municipal Inspector to the extent reasonably required by the Chief Municipal Inspector

(h) to a Commission of Inquiry to the extent reasonably required by the Commission of Inquiry;

(i) to the extent reasonably required by a law enforcement agency;

- LGA Section 123 Misuse of Position

(1) A person who is, or has been, a Councillor or member of a delegated committee must not intentionally misuse their position—

(a) to gain or attempt to gain, directly or indirectly, an advantage for themselves or for any other person; or

(b) to cause, or attempt to cause, detriment to the Council or another person.

Penalty: 600 penalty units or imprisonment for 5 years.

(2) An offence against subsection (1) is an indictable offence.

(3) For the purposes of this section, circumstances involving the misuse of a position by a person who is, or has been, a Councillor or member of a delegated committee include—

(a) making improper use of information acquired as a result of the position the person held or holds; or

(b) disclosing information that is confidential information; or

(c) directing or improperly influencing, or seeking to direct or improperly influence, a member of Council staff; or

(d) exercising or performing, or purporting to exercise or perform, a power, duty or function that the person is not authorised to exercise or perform; or

(e) using public funds or resources in a manner that is improper or unauthorised; or

(f) participating in a decision on a matter in which the person has a conflict of interest.

2.2 Duties of individual Directors

Under Common Law, Company Directors have a general duty to act honestly, with reasonable care, skill and diligence, and to discharge their fiduciary duties. Under the *Corporations Act* they are expected to use a reasonable degree of care and diligence in discharging their duties.

They must also act in good faith and must not use their position or the information they gain as a Director to advantage themselves or others, or to cause harm to the Company. Directors failing to meet these obligations can be charged with various offences under the *Corporations Act* as well as face being sued under Common Law.

The *Corporations Act* in Australia recognises that Directors are not infallible. It includes a "business judgement rule" which provides the Directors who:

- Make informed business judgements in good faith
- For a proper purpose
- Rationally believing the judgements to be in the best interests of the Company, shall be regarded as having met their duties of care and diligence under the *Corporations Act* and Common Law.

This does not mean Directors can take a cavalier attitude to business risk as Directors are still expected to make informed business judgements and they must have a rational belief that their decisions are in the best interests of the Company.

Company Directors also have obligations under various Federal and State legislation including taxation, equal opportunity laws etc. It is important to note that Directors can be held personally liable under some of these laws – liability is not necessarily confined to the Company itself.

2.3 Majority of the Board should be independent

An independent Director is a non-executive Director (that is, not a Member of Management) who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

All Directors, whether classified as independent or not, should bring independent and objective judgement to bear on board decisions.

To facilitate this there should be a procedure agreed by the Board for Directors to have access in appropriate circumstances to independent professional advice at the Company's expense.

Non-executive Directors should consider the benefits of conferring regularly without Management present, including at scheduled sessions.

2.4 Independence materiality

When determining the independent status of a Director the Board should consider whether the Director:

- is a substantial shareholder of the Company or an Officer of, or otherwise associated directly with, a substantial shareholder of the Company.
- is employed, or has previously been employed in an Executive capacity by the Company or another Group Member, and there has not been a period of at least three years between ceasing such employment and serving on the Board.
- has within the last three years been a Principal of a material Professional Adviser or a material Consultant to the Company or another Group Member, or an employee materially associated with the service provided.
- is a material supplier or customer of the Company or other Group Member, or an Officer of or otherwise associated directly or indirectly with a material supplier or customer.

- has a material contractual relationship with the Company or another Group Member other than as a Director of the Company.

Family ties and cross-directorships may be relevant in considering interests and relationships which may compromise independence, and should be disclosed by Directors to the Board.

The Board should regularly assess whether each non-executive Director is independent. Each non-executive Director should provide to the Board all information that may be relevant to this assessment.

If a Director's independence status changes, this should be immediately disclosed and explained to the Chief Financial Officer.

The Council recognises that the interest of subsidiaries and its stakeholders are likely to be well served by having a mix of directors, some with a longer tenure with a deep understanding of the entity and some with a shorter tenure with fresh ideas and perspective. It also recognises that the Chair of the Board will frequently fall into the former category rather than the latter.

Length of tenure is not the only factor to be considered in determining whether or not a Director is independent. However as a general rule, the Board should regard ten years as the standard maximum term beyond which independence should be reviewed.

2.5 CEO as a Director

In accordance with commercial practice, the Chief Executive Officer (CEO) of the Company may be appointed as a Director of the Company in line with its constitution.

Pursuant to the *Corporations Act* a CEO who attends all Board meetings may be said to be acting as a “de facto” Director and is liable in the legal sense in the same way a Director is who has been formally appointed.

The non-executive Directors should periodically meet for a short time without the CEO or other Management present.

2.6 Chair should be an independent Director

The chair of the board should be an independent director and should not be the same person as the CEO of the entity.

The Chair is responsible for the leadership of the Board and for the efficient organisation and conduct of the Board’s functioning.

The Chair should facilitate the effective contribution of all Directors and promote constructive and respectful relations between Board Members and Management.

The role of Chair is demanding, requiring a significant time commitment. The Chair’s other positions and outside commitments should not be such that they are likely to hinder effective performance in the role.

2.7 Chair’s position description

The division of responsibilities between the Chair and the CEO should be agreed by the Board and set out in a statement of position authority.

2.8 Nomination Committee

If the board decides to establish a Nomination Committee, it should comprise of two non-executive Directors. For the nomination of new Directors only, the Lead and Deputy Lead of the Finance, Governance and Risk portfolio or the Council’s Executive Management (or equivalent), and the Nomination Committee may also seek additional input from Advisors as required.

The key roles and responsibilities for this Committee, that are detailed in the charter and approved by each Subsidiary Board, should include:

- assessment of the necessary and desirable competencies of Board Members;
- review of Board succession plans;
- evaluation of the performance of the Board, its Committees and each Director; and
- recommendation for appointment and re-election of Directors.

Ultimate responsibility for these practices rests with the full Board, whether or not a separate Committee exists.

Alternatively, the Company may wish for the full Board to act as the Nomination Committee with meetings held concurrently, as required, with Board meetings. However, they are still required to have present a representative from the Council or Council's Executive Management (or equivalent) when discussing the nomination of new Directors.

Any nomination of New Directors or extension of existing Directors will be subject to a Joint Nomination approval process

2.9 Board succession planning

Each Subsidiary Company has three-year terms for the Chair and Directors, which are rotated to ensure continuity of experience on the Boards.

The succession planning process must be robust and strategically focused on future needs, and on the skills required for each Subsidiary Company Board.

There also needs to be a clear understanding of whether there is an existing Director who could succeed the Chair.

Board Members appoint their Chair, in accordance with each Company's constitution.

2.10 Election of Directors

The names of candidates submitted for election as directors should be accompanied by the following information to enable Councillors to make an informed decision on their election.

- Biographical details, including competencies and qualifications and information sufficient to enable and assessment of the independence of the candidate
- A statement by the board as to whether it supports the nomination of the proposed candidates(s)
- Details of the relationships between the candidate and the company and the directors of the company
- Directorships held
- Particulars of other positions which involve significant time commitments
- The term of office currently served by any directors subject to re-election
- Any other particulars required by law

Non-executive directors should be appointed for specific terms and subject to re-election.

Reappointment should not be automatic.

2.11 Board composition and skill mix

Subsidiary Company Boards should consist of Directors who bring a mix of skills, experience and diversity based on the needs of the individual Boards in meeting their medium term strategic objectives.

When considering appointments, consideration should be given to how an individual can add value to the board by an analysis of the skills they will bring to the Board and taking into account the skills that are already possessed by the Board. Consideration also needs to be given to what skills will be required on Board Committees when appointing Directors.

The Subsidiary Board should provide for greater transparency of the process which the board adopts in searching and selecting new directors to the board. Such reporting should include

- Details of the a board skills matrix used to indemnify any 'gaps' in the skills and expertise of the directors of the board,
- The process by which candidates are identified and selected including whether professional intermediaries are used to identify and assess candidates,
- The steps taken to ensure that a diverse range of candidates is considered , and
- The factors taken into account in the selection process.

Desirable skills and experience may include:

- Business acumen and management;
- Finance and accounting;
- Risk management: understanding the risk management processes and internal control;
- Community liaison;
- Commercial Director experience;
- Retail;
- Technology;
- Marketing and understanding consumers;
- Heritage or town planning;
- Contracting;
- Human resources;
- Environment; and
- Information.
- A draft skills matrix is included at appendix B

2.12 Director selection, appointment and re-appointment processes

To ensure a pro-active and transparent process in the appointment of new Directors:

- **Pro-active and systematic process:** Subsidiary Boards should be proactive and systematic by undertaking rigorous and independent search (where appropriate) and selection to identify suitable candidates. Ideally, when the situation is a normal rotation retirement, this should commence at least nine to twelve months in advance of a Board vacancy.
- **Analysis of Board needs:** Determination of suitable candidates should be based on a careful analysis of the Board's existing strengths and weaknesses, gaps in skills and experience, diversity of Directors and the Company's future plans. The subsidiary Board and/or Subsidiary Nominations Committee should develop a skill needs assessment and gap analysis including technical, cultural and experience elements. Consideration of rotation and succession plans also need to be considered on an ongoing basis. The subsidiary to advise Council of reappointment requirement, provide skills matrix, gap analysis and determine if any retiring directors are seeking re appointment. Consideration of total Board numbers is also required for ongoing

governance. The council will provide input into analysis, including any key skills and requirements. This activity should commence at least six months prior to the director appointment date.

- **Convene Joint Nomination Committee:** The Joint Nominations Committee will be convened, consisting of the Chair of the subsidiary board (or nominee of the Chair), and the Council's Portfolio Lead and Deputy Lead of the Finance, Governance and Risk Portfolio. The Secretariat of the Committee will be the Council's Chief Financial Officer.
- **Agree skill requirements and call for nominations:** Debate requirements and develop a summary of skill requirements to be validated by subsidiary Board. Ask both Council and subsidiary for nominations. Nominations must be accompanied by a rationale linked to agreed skill requirements. Appoint a search consultant and/or advertise the position. This activity should commence at least 4- 5 months prior to the director appointment date.
- **Conduct Interviews** The Search Consultant and/or Nomination Committee will interview and create a shortlist using agreed criteria. Scoring of candidates will be formally recorded to validate shortlist. All shortlisted candidates to be subject to reference checks. Nominations committee will interview shortlist, if they were not involved in initial interviews, and confirm selection. This activity should commence at least three months prior to the director appointment date. Produce a selection report for the Board and Council including candidates, scores and any other rationale to validate the shortlist presented. The report should also document the selection process followed.
- **Approval of nominated candidates**: Subsidiary to first approve nominated candidates. Any changes to be referred to Nomination Committee for review and re documentation of rationale. Following subsidiary approval, Council approval. Any changes in the nominations requested to be reviewed with the subsidiary prior to finalisation.
- **Appointment:** Following subsidiary and Council approval. Any changes in the nominations requested to be reviewed with the subsidiary prior to finalisation. The Subsidiary Secretary will formally appointment the director under the terms approved by Council and issues the letter of appointment.
- **Casual vacancy:** If the process has been used to fill a casual vacancy, then the appointment must be confirmed at the next annual general meeting.

2.13 Board, Committee and individual Director performance evaluation

To be effective, Subsidiary Boards should be conscious of their own culture, their strengths and weaknesses and the possibilities for constructive change. They should also be open to continuous learning through a self-assessment or similar process for the Board, Committees and individual Directors.

The performance of the Board should be reviewed regularly against appropriate measures.

2.14 Director induction and education

Newly appointed Directors must have the opportunity for a formal induction to the Company.

This could include:

- An individual meeting with the Chair and the CEO to discuss expectations and responsibilities, including governance practices, protocols and the role of Board Committees.

- Attendance at a briefing session convened by the Company Secretary that includes presentations on the business by Senior Management to provide an overview of the Company's culture and values, financial, strategic, operational and risk management position.
- Introduction to key Councillors and Members of the Council Executive Management (or equivalent), either as a group or individually.
- Provision of a comprehensive package of briefing materials in relation to the Company.
- Visits to the respective Subsidiary Company's facilities or sites and meeting with key Staff.
- Meeting arrangements

Directors should have access to continuing education to update and enhance their skills and knowledge. This should include education concerning key developments in the Company and in the industry and environment in which it operates.

3. PROTOCOL 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

3.1 Subsidiary Companies should articulate and disclose its values

Values are the guiding principles and norms that define what type of organisation it aspires to be and what it requires from its directors, senior executives and employees to achieve that aspiration.

3.2 Code of conduct

Subsidiary Companies should establish a code of conduct covering:

- The practices necessary to maintain confidence in the Company's integrity;
- The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;
- The responsibility and accountability of individuals for reporting and investigating reports of unethical practices;
- The policy concerning diversity and disclose the policy or a summary of that policy. The policy should include the requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and the progress in achieving them; and
- The policy concerning conflict of interest and disclose the policy or a summary of that policy. The policy should include a set of measures that identify the circumstances that constitute a conflict of interest, the requirement for Directors, Senior executives and Employees to disclose any potential or actual conflict of interest and the consequences for the breach of conflict of interest, particularly in areas of recruitment and procurement.

Good corporate governance ultimately requires people of integrity. Personal integrity cannot be regulated. However, shareholder confidence can be enhanced if the company clearly articulates acceptable practices for Directors, Senior Executive and Employees.

The Board has a responsibility to set the ethical tone and standards of the Company. Senior Executives have a responsibility to implement practices consistent with those standards.

Companies should ensure that training on the code of conduct is updated on a regular basis.

3.3 Frequency of meetings

3.3.1 Board meetings

All Subsidiary Boards shall hold sufficient meetings per year to enable Directors to discharge their duties. They are also expected to hold at least one one-day strategy meeting to allow time to adequately consider the strategic plan.

3.3.2 Committee meetings

- Audit and Risk Committee (or similar) should meet at least four times per year.
- Other Committees should meet as required.

3.4 Ad-hoc Committees

Subsidiary Company Boards may establish ad-hoc Board Committees to assist them in carrying their duties.

The key roles and responsibilities for any ad-hoc Committee must be detailed in a charter and be approved by each Subsidiary Board, indicating either a review date or sunset clause.

3.5 Complaints to Councillors regarding Subsidiary Companies

From time to time, complaints may be made to Councillors about the operations of Subsidiary businesses.

All complaints from stakeholders of the Subsidiary Companies to councillors are to be directed through the Chief Financial Officer who will follow-up the issue with either the Chair or CEO, and as appropriate, report back to the Councillor concerned.

3.6 Complaints to Council Officers or Employees

All complaints from stakeholders of Subsidiary Companies to Council Officers or Employees are to be directed through the Chief Financial Officer who will follow-up the issue with the CEO and, as appropriate, report back to the person who received the compliant.

3.7 Subsidiary Companies should have and disclose the following policies:

- Whistle-blower policy, or similar
- Anti-bribery and corruption policy, or similar

4. PROTOCOL 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 Management attestation

For each Subsidiary Company, the Managing Director and CFO must give their Directors (with a copy to Chief Financial Officer) a declaration that in their opinion:

- the financial records of the Company have been properly maintained in accordance with section 286 of the *Corporations Act*;
- the financial statements, and the notes referred to in Section 295 (3) (b) for the financial year comply with the accounting standards; and
- any other matters required by regulations or by the Council (shareholder) in relation to the financial statements and the notes for the financial year are satisfied.

The attestation must also declare:

- that the Subsidiary Company’s financial reports are based on a sound system of risk management and internal control which implements the policies adopted by each Subsidiary Board, in relation to financial reporting risks and that the system is operating effectively in all material respects (refer to Protocol 7.4.).

4.2 Audit and Risk Committee

Each Subsidiary Board should have an Audit and Risk Committee (or similar e.g., audit and risk) comprising at least the two most suitably qualified independent non-executive Directors. Better practice suggests that the Board Chair should not chair the Audit and Risk Committee, although he or she may be a Member.

Alternatively, the Company may wish for the full Board to act as the Audit and Risk Committee (if the full Board comprises of non-executive Director) with meetings held concurrently, as required, with Board Meetings. In this case the Audit and Risk Committee should have a separate agenda. As above, the Audit and Risk Committee Chair should not also chair the full Board.

Each Audit and Risk Committee formed shall have a charter detailing its composition, attendance of non-Committee Members, role, responsibilities and reporting requirements that shall be approved by each Subsidiary Board.

At present, both the Council and Subsidiary Companies share:

- External Auditor, appointed by the Auditor-General; and
- Internal Auditor.

The Council has established a Council Audit and Risk Committee.

The key functions of the Subsidiary Company Audit and Risk Committees include:

- Fulfilling its statutory and fiduciary responsibilities relating to reporting, accounting policies, financial practices and procedures and internal control systems.
- Maintaining an effective and efficient business risk management framework.
- Maintaining effective and efficient compliance and audit functions.
- Reviewing of the risk management and internal control.

The ultimate responsibility for the integrity of a Company's financial reporting rests with the full Subsidiary Board, whether or not a separate Audit and Risk Committee exists.

4.3 Council's Audit and Risk Committee protocols

The Council's Audit and Risk Committee has in place the following protocols for the Subsidiary Boards through their Audit and Risk Committees:

- **Internal Audit plan**

The Subsidiary Companies will provide a copy of the annual Internal Audit plan by 15 August each year.

- **Audit plan reporting**

The Subsidiary Companies will provide a quarterly Audit Status report detailing progress against the Plan, issues and risks identified and remedial activities scheduled.

- **Internal Auditor annual report**

At the end of the year, the Subsidiary companies will provide an independent report from the Internal Auditors which summarizes the status of all internal Audit recommendations.

- **Meetings**

The Chairpersons of the Council and Subsidiary Audit and Risk Committees should meet at least annually for exchange of information and ideas. Further, the Subsidiary's Audit and Risk Committee Chairs should attend Council's ARC meetings as required and at least annually.

- **External Audit Management Letter matters**

At the end of the year, The Subsidiary Companies will provide a copy of the External Auditors annual management letter

- **Audit performance**

At the end of the year, The Subsidiary Companies will provide a report on their assessment of the performance of the Internal and External auditor.

- **Committee charter**

The Subsidiary Companies will provide a copy their Audit and Risk Committee charters, including any proposed changes thereto, at such time as the charters are reviewed.

Any changes to Audit and Risk Committee charters should be discussed with the Council prior to attaining approval from the Boards of The Subsidiary Companies. The Subsidiary Companies should highlight to the Council of any material changes to Audit and Risk Committee charters.

- **Risk profile**

The Subsidiary Boards to provide a macro risk profile at least annually to the Council Audit and Risk Committee and to advise the Audit and Risk Committee of any significant changes to that profile. In addition the Subsidiary Boards are to provide the following reports to the Council Audit and Risk Committee:

1) A risk matrix identifying the top five key strategic risks for subsidiary be presented annually);

2) Any new major risks or changes to the top five key strategic risks that emerge during the course of the year. (to be communicated quarterly);

- **Other issues**

The Subsidiary Companies to provide quarterly updates relating to, inter alia,

- OH&S statistics, major incidents and near misses
- Actual and potential fraud activity, including resolutions
- Legal claims and resolutions
- Instances of non-compliance with laws and regulations
- Proposed changes to accounting policies
- Material, unusual accounting transactions and adjustments
- Instances relating to information security and cyber security
- Any other matters considered appropriate.

4.4 Shareholder reporting

The following reports are required in a timely manner and contain the following information:

4.4.1. Reporting

- Financial and operating performance when requested, or when produced internally for Board meetings, or any other significant events for consideration between scheduled reporting dates.
- Financial and operating performance against budgets for the quarter and year to date, with concise comments regarding any significant variances and outlining any necessary remedial action.
- Updated forecast of financial and operating performance, with concise comments regarding significant variances.
- Non-financial reports, for elements measured during the previous quarter, with concise comments regarding performance.
- Major issues and risks that may have a significant effect on the Company’s reputation, profitability, assets or the Council’s reputation.
- Matters reviewed by the Auditors, significant risks identified and the resolution status.

4.4.2. Annually (30th June)

- Annual report, statement of accounts and proposed dividend. The annual report will also be reported to the Council’s ARC.
- Annual Auditor’s report verifying that proper reporting has occurred during the year.
- Chair’s report.
- Budget of financial and operating performance forecasts for the next year. The budget should provide a detailed breakdown of the revenues (both core and non-core revenues) and operating costs.

- Budget for capital works program for the next year.
- Rolling three-year business plan (as a minimum).
- Rolling three-year financial plan (as a minimum)
- Audit plan for the next year.
- The Council has a duty to monitor the performance of its Subsidiary Entities in the same way that a Holding Company is responsible for the activities of its Subsidiaries. The Council undertakes this duty through the use of Committees.

4.4.3. Other reporting

Subsidiary Companies are also to report immediately to the Chief Financial Officer in the following instances:

- Any proposed acquisitions, mergers or divestures;
- When crisis management procedures are acted upon;
- Public relations issues that could have a major effect on the reputation of the Council or Company; or
- Any other significant risks or issues.

5. PROTOCOL 5: MAKE TIMELY AND BALANCED DISCLOSURE

5.1 Continuous disclosure

The Council's Chief Financial Officer must be advised immediately of any information regarding any:

- Material risks/matter that may have a significant effect on the Company's reputation, profitability or assets.
- Material issues that may affect the Council's reputation.

This policy supports a culture of "no surprises".

The Council's CFO will inform the Council's ARC of any material risks, matters and issues consistent with management practices.

5.2 Informal meetings

The Chairpersons of the Subsidiary Boards meet the Lord Mayor at least annually. The Chair, Audit and Risk Committee Chair, CEO and the Chief Financial Officer may also attend the meetings of the Council Audit and Risk Committee and the Finance, Governance and Risk Portfolio Group Meeting, if requested.

Any formal communication between the Lord Mayor, Councillors and the Subsidiary Companies, excluding complaints, should be through the respective Chair, whilst any formal communication between Council Officers and the Subsidiary is to be directed through the Chief Financial Officer.

6. PROTOCOL 6: MANAGE AND SAFEGUARD KNOWLEDGE AND INFORMATION SOURCES[1]

The Subsidiary Companies should establish a clear, documented policy which establishes the standards of behaviour and procedures for handling confidential and market-sensitive information. Employees are expected to comply with this policy and assist company in protection of the confidential information.

The 'need to know' principle

A special consideration should be given to ascertain how Company can limit access to information to only those who absolutely require the information to undertake the business role.

[1] Handling confidential, market-sensitive information: Principles of good practice; Chartered Secretaries Australia (CSA) and the Australasian Investor Relations Association (AIRA)

7. PROTOCOL 7: RESPECT THE RIGHTS OF SHAREHOLDERS[2]

7.1 Communications strategy

The Subsidiary Companies should respect the rights of the shareholders and the Companies should empower the shareholder by:

- communicating effectively with them;
- giving them ready access to balanced and understandable information from the Company; and
- encouraging meaningful participation in general meetings.

7.2 Communicating governance practices

Subsidiary Companies may wish to communicate their key governance practices using their annual report and/or website for marketing and stakeholder purposes.

[2] ASX Corporate Governance Council – Corporate Governance Principles and Recommendations – Principle 6 (4th Edition 2019).

8. PROTOCOL 8: RECOGNISE AND MANAGE RISK

8.1 Risk profile

Each Subsidiary Board should establish the risk profile. A risk profile informs the Board and Management about material business risks relevant to the Company. Material business risks are the most significant areas of uncertainty or exposure, at a whole-of-Company level, that could have an impact on the achievement of the company's objectives. They present opportunities and threats for financial gain or loss.

Many business risks will be determined by the choice of Company activity, the external environment and the nature of the Company's assets. Factors that can influence the risk profile include:

- the health of the industry sector;
- market share and size;
- competition;
- industrial relations;
- foreign exchange and interest rates;
- equity and commodity prices;
- political visibility.

Companies will also have risks associated with their internal operating activities such as those emanating from:

- operating performance;
- compliance;
- financial control and reporting;
- technology;
- cyber security;
- people and skills
- issues relating to the quality of management.

The risk profile should be regularly updated and reviewed.

Subsidiary Boards are to provide a macro risk profile at least annually, to the Council's Audit and Risk Committee and to advise the Council's Audit and Risk Committee of any significant changes to that profile.

8.2 Risk management policy

Each Subsidiary Company should establish a risk management policy that takes into account the Company's risk profile and should clearly describe all elements of the risk management and internal control systems and the Internal Audit function.

When developing risk management policies the Subsidiary Company should take into account its legal obligations that include, but are not limited to, requirements dealing with trade practices and fair dealing laws, environmental law, privacy law, employment law, occupational health and safety and equal employment and opportunity laws. A Company should also consider the reasonable expectations of its stakeholders.

8.3 Management attestations on material risk reporting process

The Board should require Management to design and implement the risk management and internal control system to manage the Subsidiary Company's material business risks and report on whether those risks are being managed effectively. The Board should report to the Council's Audit and Risk Committee that Management has reported to it regarding the effectiveness of the Company's management of its material business risks.

Internal controls are an important element of risk management. Management should design, implement, and review the Company's risk management and internal control system.

As part of its oversight for the risk management and internal control system, the Board should review the effectiveness of the implementation of that system at least annually. The Board retains responsibility for assessing the effectiveness of the Company's systems for management of material business risks. It may be appropriate in the Company's circumstances for the Board to make additional enquiries and to request assurances regarding the management of material business risks

8.4 Risk Management Committee

The Audit and Risk Committee (or Risk Management Committee) should focus on appropriate risk oversight, risk management and internal control.

Ultimate responsibility for risk oversight and risk management rests with the full Subsidiary Board, whether or not a separate Committee exists.

9. PROTOCOL 9: REMUNERATE FAIRLY AND RESPONSIBLY PROTOCOL

9.1 Remuneration Committee

A Remuneration Committee should be formed for each Subsidiary Company and should comprise of two non-executive Directors and the Committee may also seek additional input from Advisors, as required.

The key roles and responsibilities for this Committee, that are detailed in the charter, approved by each Subsidiary Board, should include a review and recommendation to the Board on:

- the Company's remuneration, recruitment, retention and termination policies and procedures for Senior Executives.
- Senior Executives' remuneration and incentives.
- superannuation arrangements.
- the remuneration framework for Directors:
- remuneration by gender

Alternatively, the Company may wish for the full Board to act as the Remuneration Committee with meetings held concurrently, as required, with Board meetings.

9.2 Management remuneration policy

The Executive remuneration packages should involve a balance between fixed and incentive pay, reflecting short and long-term performance objectives appropriate to the Subsidiary Company's circumstances and goals.

Termination payments, if any, for the Managing Director should be agreed in advance, including detailed provisions in case of early terminations. There should be no payment for removal as a result of misconduct.

The provision of loans, guarantees or settlement of liabilities is prohibited.

9.3 Director remuneration

Remuneration review process

As Subsidiary Company Directors do not have immunity from liability under the *Corporations Act* it is appropriate that market rates be paid in order to attract suitably experienced candidates.

There is an annual review of Director's remuneration, based on an agreed process with Council, and a full review of Director's remuneration at four yearly intervals. This full review is to be on a professional basis (using external Consultants as appropriate) to ensure it is in line with industry standards and that Directors fees are at a level that will allow the Council to attract and retain appropriately skilled and experienced Directors.

The review process could take the following into account:

- Victorian State Government guidelines for the appointment and remuneration of part-time non-executive Directors and Officers:
- The amount of time allowed for Board meetings, including significant preparation time:
- The payment of a separate Committee fee based on meeting timings and preparation:

- Time needed for other Directors duties outside normal Directors meetings:
- Comparison of market rates in terms of daily rates for professionals such as consultants, accountants, lawyers;
- Recognition of the level of personal risk involved; and
- Benchmarking using industry remuneration reports and surveying comparable Companies

Given the additional time and responsibility, the Chairperson's remuneration in line with current market trends is to be up to double that of the other Directors.

Board remuneration recommendations are to be submitted in advance of each Company's annual general meeting, to the Council or its delegate, for consideration.

9.4 Directors' fees for Committee and other work

Directors who undertake additional duties and serve on Committees receive additional remuneration in recognition of these additional duties, based on an hourly rate equivalent, including preparation time.

Directors' fees for Committee and other work recommendations are to be submitted in advance of each Company's annual general meeting, to the Council or its delegate, for approval.

9.5 Reporting on Director's remuneration

Approval of any amendment to Directors' total remuneration must take place at each Subsidiary Company's annual general meeting, after being submitted in advance of each Company's annual general meeting to the Council or its delegate, for approval.

The Managing Director and CFO must provide an annual statement to the Board (refer to Protocol 4.1) in writing:

- Subject to section 295A of the Corporations Act, that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- That the declaration provided in accordance section 295A is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

APPENDIX A – DRAFT JOINT NOMINATIONS COMMITTEE CHARTER

Organisation

This charter governs the operations of the Joint Nominations Committee. The committee shall review and reassess the charter on each occasion that they are called together and obtain the approval of the subsidiary and the Council for any amendments to the charter.

The committee is authorised by the Council and the subsidiary to:

(a) obtain any information it requires from any employee of the subsidiary or council that is relevant to the nomination process; and

(b) obtain or retain outside legal or other professional advice at the subsidiary's or council's expense as appropriate.

Purpose

The principal purpose of the committee is to establish and maintain a formal and transparent procedure for the selection and appointment of new directors to the board, including the reappointment of existing directors retiring by rotation.

Membership

The committee will comprise of the following members: the Chairperson of the subsidiary or nominee of the Chairperson and the Lead and Deputy Lead of the Council Finance, Governance and Risk Portfolio Group Meeting.

The Chief Financial Officer will act as secretariat to the Committee.

Meetings

The Committee will meet as and when required to discharge its responsibilities, but as a minimum to:

- Agree the skills, experience and other factors that should drive the selection process. This same meeting will also determine whether a recruitment firm or advertising or a combination of both with be used to facilitate the process.

- Assess the candidates received and develop a shortlist for more detailed evaluation and interview.

- Interview the short listed candidates.

- Approve a summary recommendation paper for both the subsidiary and the Council.

All meetings will be called by the Council's Chief Financial Officer at the request of the members of the committee.

Minutes

Minutes of meetings of the committee shall be kept by the Council's Chief Financial Officer and, once those minutes have been approved by the members, shall be available at the request of either the Board or the Council.

Duties and Responsibilities

The committee will source and make recommendations to the Board and Council for the appointment of new directors to the Board, including the reappointment of existing directors retiring by rotation.

In doing so the committee will take all reasonable steps to ensure that all individuals nominated for appointment to the board as a non-executive director, expressly acknowledge, prior to their election, that they are able to fulfil the responsibilities and duties expected of them.

The committee will review the succession plans in place for membership of the Board to ensure that an appropriate balance of skills, experience and expertise is maintained as part of this process.

The Committee will authorise a paper summarising the selection process followed and the scoring of all candidates nominated. The rationale for the selection of the agreed directors should also be provided.

Authority

The Committee is an advisory committee and as such has no final decision making powers. The appointments require approval by both the Board and the Council prior to finalisation of the appointment process.

Appendix B –Skills Matrix

Skill	Director 1	Director 2	Director 3	Director 4
Business Skills				
Strategy				
Local Government				
Financial				
Legal				
Risk				
Human Resources, incl OHS & workforce relations				
Marketing				
Environment				
Information Technology				
Qualities				
Integrity				
Teamwork				
Commercial acumen				
Active contributor				
Values aligned to subsidiary				
Stakeholder management				
Other				
Experience as director				
Experience as a leader				
Appropriate qualifications e.g. AICD				
Contacts and Networks				
QVM Specific				
Property				
Tourism				
Heritage				
Food marketing				
CityWide Specific				
Infrastructure management				
Horticulture				
Engineering				
Tendering				
Contracting				

Mergers & Acquisitions				

Appendix C – Standardised Business Plans for Subsidiaries

Executive Summary

- Outline the purpose of the plan and what it's trying to achieve.

Current State

- Summary of the current state of the business and challenges moving forward.
- Include SWOT analysis.
- Performance of KPIs for previous year and rectification plan for underperformance.

Define the company's business objectives (and how it will reach these objectives) and desired future state.

- Include mission, vision and statement of expectations/corporate intent between the subsidiary and the Council.

List Goals / Objectives

- Key priorities for the year.
- Link back to enterprise strategy.
- How will it be achieved?
- How will it be measured?
- Response to key challenges.
- KPI's (financial and non-financial)

Key Challenges

- Challenges facing the business and initiatives to respond to challenges.

Financial Information

- High level summary of financial information including:
    - Actuals for previous year
    - Actuals for current financial year.
    - Budget for business plan year.
    - Forecast for four additional financial years
- Commentary to include:
    - Explanation in movements.
    - Key assumptions.
    - Return to council (if relevant).
- Detailed financial statements to be included as an appendix.

CITY OF MELBOURNE

Attachment 6 – Summary of Material Changes to the Financial Policies

1. Proposed material changes/movement to the Financial Sustainability Policy

Summary of material updates made reflecting ARC and ELT 2023 review		
Section	**Name**	**Material Changes**
9	Recording and Reporting	Now specifies that the CFO will provide a report to the ELT on a quarterly basis. Previously did not specify the frequency and only stated that it a report would be provided 'on a regular basis'.
11	Policy Review	Reflecting feedback from the ELT, the frequency of review has been updated from every four years to every two years.
12	Appendix	Moved Financial Sustainability Ratios and References to the Appendix so that they can be updated more regularly.

Summary of material updates and proposed changes from the Investment and Strategic Income Policy to the Financial Sustainability Policy		
Section	**Name**	**Material Changes**
1	Overview	At a high level, this consolidated Financial Sustainability Policy has removed the reference to cash investment as defined in Section 103 Investments on Local Government Act 2020 and refers to investment as capital investment to distinguish from Investments as defined by Section 103 of the Local Government Act 2020. Hence this section has been reflected into the consolidated Financial Sustainability Policy, including: • Purpose of the policy (Section 1) • Asset class definitions (Section 3) • Investment and strategic income guidelines (Section 6) • Policy review (Section 11)
2	Purpose of the Investment and Strategic Income Policy	This section of the Investment and Strategic Income Policy has been incorporated and streamlined into Section 1 and 4 of the Financial Sustainability Policy.
3	Investment and Strategic Income Objectives	Proposed update reflected in Section 5 Capital Investment Decision of the Financial Sustainability Policy.
4	Asset Allocation	This section is removed entirely as it is no longer relevant to intent.
5	Asset Class Definitions	The Financial Sustainability Policy is focused on investment other than cash and fixed interest investment as defined in Section 103 Investments on Local Government Act 2020.
6	Asset Diversification	This has been removed as Section 9 Constrained Target Portfolio section of the Investment and Strategic Income Policy section is currently suspended while the QVM redevelopment is underway.
7	Investment and Strategic Income Asset Guidelines	• Part of this section is addressed in Section 6 of the consolidated Financial Sustainability Policy (Capital Investment Guidelines) • Part of the section that addressed cash investment is removed as cash investment will be addressed in the Treasury Policy.

		• Proposed updates to the Risk Tolerance section to align more with Council's position regarding the level of capital investment and the level of borrowing.
8	Key Constraints	• Part of this section that discussed cash is removed. • Part of this section is moved to Section 6 Capital Investment Guidelines.
9	Constrained Target Portfolio	Removed as this section is suspended while the QVM redevelopment is underway.
10	Compliance with the Governance Principles	Incorporated in Section 11 of the consolidated Financial Sustainability Policy.

Proposed Updates to the Financial Sustainability Policy, relevant to the Capital Investment, can be seen in the following sections:

Section	Name	Material Changes
4	Financial Sustainability Policy Statements	• Capital Investment has been defined to guide CoM's investment decisions. • Borrowing Principles have been aligned with Capital Investments definitions and requirements.
5	Capital Investment Decision	This section has been added from benchmarking with other companies' Investment policies as they relate to investment within the Council's context
6	Capital Investment Guidelines	This section is proposed to be added from benchmarking with other companies' investment policies as this relates with Council's context. Also, the section regarding major business case for major discretionary will be implemented in alignment with the Council's roll out of the standardisation of the business case (including the financial evaluation section).
7	Roles and Responsibilities	This section is proposed to be added following benchmarking with other organisations' Investment Policy. An Investment Sub-committee will be set up if this proposed update is endorsed.
8	Monitoring, Review and Assurance	This section is proposed following benchmarking with other organisations' Investment Policy.
9	Recording and Reporting	This section is proposed following benchmarking with other organisations' Investment Policy.

Proposed Updates to the Financial Sustainability Policy, with content from the Borrowing Policy

Section	Name	Material Changes
4	Borrowing Principles and Policy Statements	These two sections have been moved from the Borrowing Policy to Section 4 of the consolidated Financial Sustainability Policy with content updated to ensure relevancy.
7	Leases	
5	Borrowing Ratios	This section from the Borrowing Policy has been moved to Section 12 of the consolidated Financial Sustainability Policy and updated to ensure relevancy.

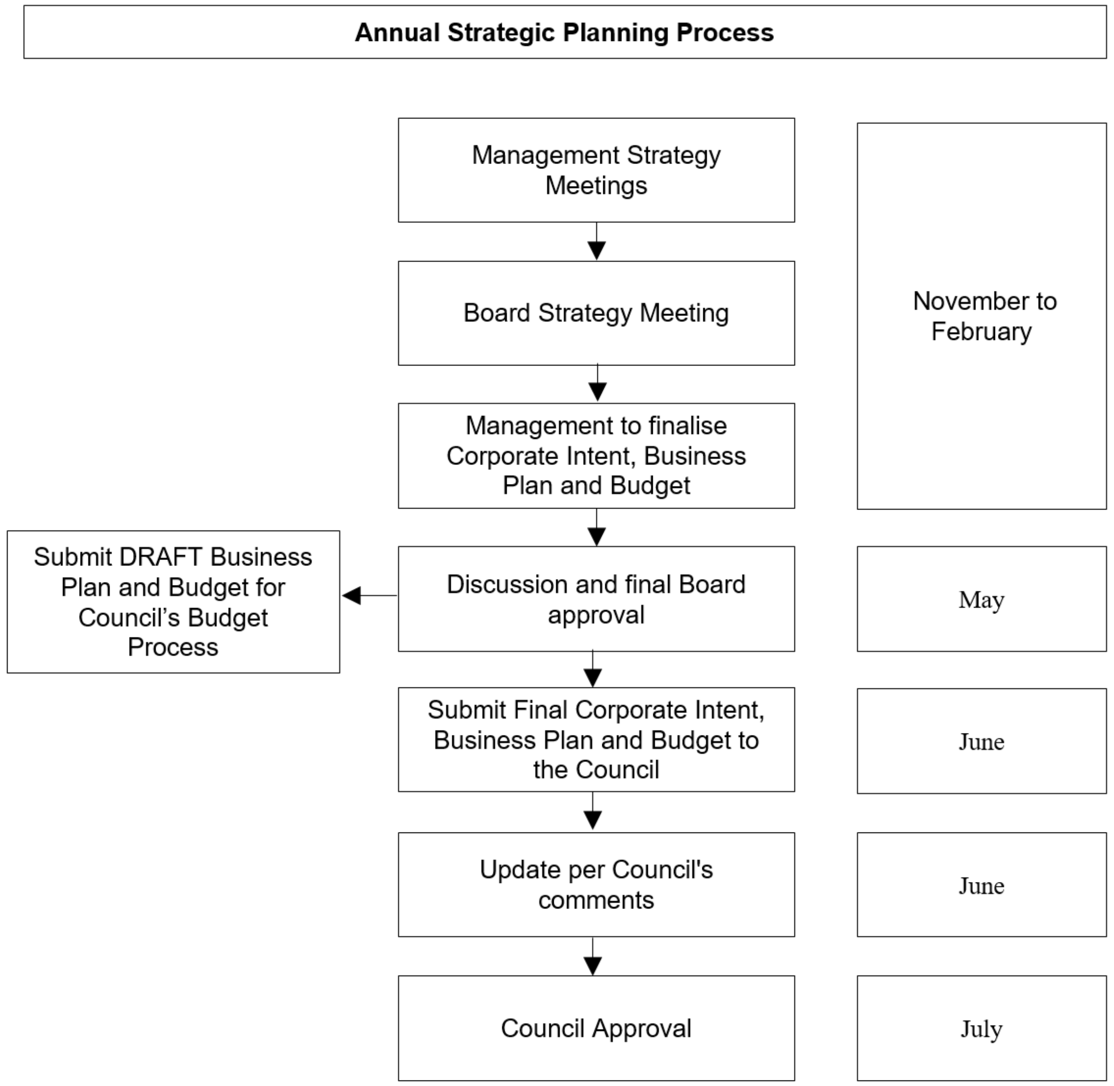
Proposed changes to the Financial Sustainability Policy with content from the Liquidity Risk and Cash Flow Policy

Section	Name	Material Changes
5	Long-Term Liquidity Management	Section 4 (Financial Sustainability Policy Statements) of the consolidated Financial Sustainability Policy has been updated to incorporate key financial ratios and expected ranges including liquidity ratios.

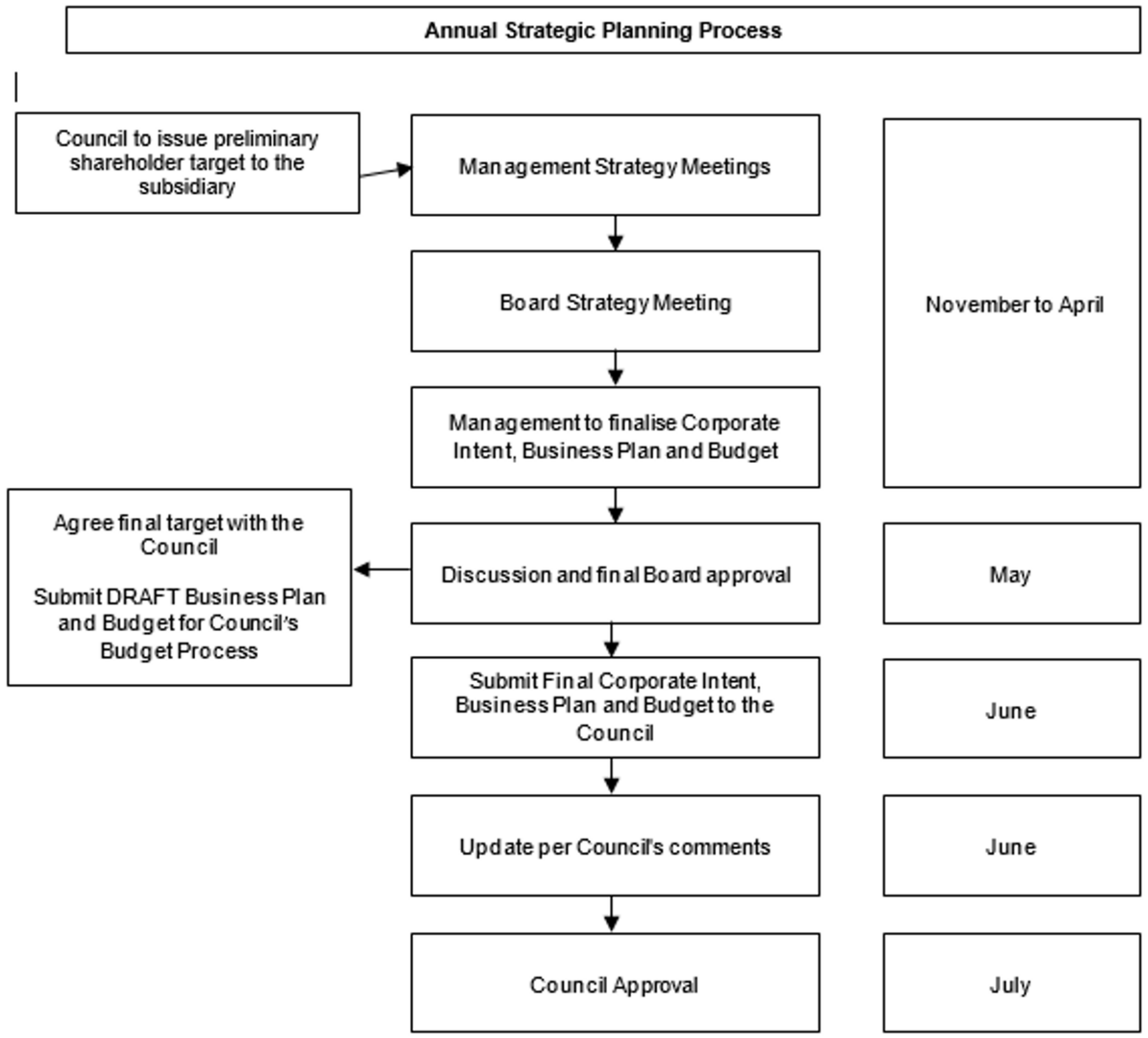
2. Proposed material changes to the Wholly Owned Subsidiary Governance Protocol

Summary of key updates to the Wholly Owned Subsidiary Governance Protocol				
Section	**Material Changes**	**Current**	**Proposed**	**Summary of the Material Changes**
Statement of Purpose of Governance Protocols	Review Frequency	Annually	Every two years or whenever appropriate	• Management only needs to review the protocol every 2 years or whenever appropriate to recommend changes.
A.3 Legislative Restrictions	Borrowing	No borrowing allowed from entities other than the council without prior consent	Borrowing allowed under restriction	• Subsidiary can borrow if agreed with council or approved by Treasurer of Victoria. • Subsidiary must report the purpose of borrowing and provide information required by State Government.
B.7 Strategic Planning Process	Strategic Planning Process	No shareholder target, corporate intent required	Shareholder target, corporate intent included	• The Council will issue a preliminary shareholder target for the subsidiary to agree with. • Management must finalize the final corporate intent, business plan, and budget by the end of June, and update these based on Council feedback before Council's final approval in July.
Protocol 2.4 Independence Materiality	Independence Materiality	Importance of mix of tenure not included	Inclusion of a mix of tenure	• Council recognised a mix of director tenure will contribute to the interest of subsidiary and shareholders. • Length of tenure is not the only factor to be considered in determining whether or not a Director is independent
Protocol 4.3 Council's Audit and Risk Committee Protocols	Risk Profile	Information security and cyber security not included	Inclusion of information security and cyber security	• Information security and cyber security issues have to be reported quarterly
Protocol 6 Manage and Safeguard Knowledge and Information Sources	Confidential Information Security	N/A	Inclusion of protocol about Confidential information security	• The Subsidiary Companies should establish a clear, documented policy which establishes the standards of behaviour and procedures for handling confidential and market-sensitive information.

Current



Proposed



3. Proposed material changes to the Treasury Policy

Summary of key updates to the Treasury Policy			
Section	**Material Changes**	**Reference**	**Material Changes**
2	Objectives	Primary objectives of CoM's financial risk management	Added • Optimise borrowing requirements to ensure adequate liquidity as well as minimisation of interest cost
3	Scope	This Policy Statement is designed to be read in conjunction with the City of Melbourne Treasury Management Procedures, the Investment and Strategic Income Policy Statement and the Liquidity Risk and Cash Flow Reporting Policy.	Deleted
4	Definitions		Added all new content
5	Risk Management Philosophy	City of Melbourne is exposed to financial risk arising from the nature of its operations. The guiding principles embodied in the Council's approach to managing these risks are to: • safeguard the financial resources to ensure ongoing liquidity	City of Melbourne is exposed to financial risk arising from the nature of its operations. The guiding principles embodied in the Council's approach to managing these risks are to: • safeguard the financial resources to ensure the ability to meet financial obligations at all times
6	Risk Management Framework	The Income and Investment Panel meets on a quarterly basis or more frequently as required. The meetings are minuted.	The Income and Investment Panel meets on a quarterly basis or as required. The meetings if held are minuted. In the absence of a meeting the Treasury team will distribute its report quarterly to the members of the Income and Investments Panel.
7.3	Credit Risk	The percentage exposure limits will only apply where the cash portfolio is greater than minimum working capital requirement of $50 million. The dollar exposure limits will always be enforced.	Deleted
7.4	Liquidity and Cash Flow Risk		Added all new content
7.7	Risk Appetite	The City of Melbourne has a low appetite for risk and only invests in financial instruments listed in schedule four of this policy. Counterparty limits are specified in schedule three of the policy and the credit rating reflects the inherent probability of default. In addition the quantum that can be invested at each investment grade credit rating is limited to a percentage of the total portfolio as detailed in schedule four. In addition a ceiling of 30% of total portfolio can be invested with a single counterparty. This is to ensure that diversification of portfolio is maintained even at the highest rating levels when the portfolio shrinks due to cashflow requirements. The percentage exposure limits will only apply where the cash portfolio is greater than minimum working capital requirement of $50 million.	Deleted highlighted content

8	Borrowing		Added all new content
11	Roles and Responsibilities	Role of the Audit Committee • review the content of the Treasury Policy when required and oversee risk mitigation and exposure.	Role of the Audit Committee • Review the content of the Treasury Policy when required to ensure proper consideration and identification of Council financial risk, and that exposure mitigation is maintained.
11	Role of the Financial Controller / Treasurer		Added all new content
13	Performance Measurement		Added • Optimise cash resources by minimising interest expense by managing the debt requirements whilst ensuring sufficient cash availability for Council requirements