Management report to Council

Agenda item 6.4

Finance Policies

Council

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

25 May 2021

Purpose and background

1. The purpose of this report is to seek endorsement of the Council's new and updated financial policies (Policies).

2. Section 102 of the *Local Government Act 2020* (Act) provides that the Council must prepare and adopt financial policies that give effect to the financial management principles (as set out in section 101 of the Act). Adoption of the policies by 30 June 2021 is sought, to align with the new financial management and reporting requirements in the Act.

3. The financial policies (the Policies) for consideration and endorsement are:

    3.1. New policy: Financial Sustainability Policy.

    3.2. Updated policies: Borrowing Policy, Treasury Policy, Liquidity Risk and Cash Flow Policy, and Wholly-Owned Subsidiary Governance Policy.

Key issues

4. The commencement of the Act meant that some aspects of current Policies needed to be updated and the adoption of a new Financial Sustainability Policy was recommended. Some aspects of some of the Policies also need to be updated to reflect what is required for the Council's Ten Year Financial Plan.

5. The adoption of the Policies will ensure that Council adheres to the following financial management principles in section 101 of the Act:

    5.1. Financial risks (including any risk relating to the financial viability of the Council) must be monitored and managed prudently having regard to economic circumstances.

    5.2. Financial policies and strategic plans must seek to provide stability and predictability on the municipal community.

6. The Policies have been presented to the Finance and Governance Portfolio and incorporate compliance statement provided by the Audit and Risk Committee. Further, the Policies have been benchmarked with those of other Councils where available.

Recommendation from management

7. That Council adopts:

    7.1. The new Financial Sustainability Policy.

    7.2. The updated Borrowing Policy, Treasury Policy, Liquidity Risk and Cash Flow Policy, and Wholly-Owned Subsidiary Governance Policies as contained in Attachments 2 to 6 of the management report.

Attachments:

1. Supporting Attachment (Page 2 of 88)
2. Financial Sustainability Policy (Page 3 of 88)
3. Borrowing Policy (Page 13 of 88)
4. Liquidity Risk and Cash Flow Policy (Page 23 of 88)
5. Wholly Owned Subsidiary Governance Policy (Page 33 of 88)
6. Treasury Policy (Page 66 of 88)

Legal

1. Section 101 of the Act sets out the following financial management principles:

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

   1.2 financial risks must be monitored and managed prudently having regard to economic circumstances

   1.3 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

   1.4 accounts and records that explain the financial operations and financial position of the Council must be kept.

   The report accurately describes the requirements of the Act

Finance

2. The Council Financial Plan as per the Act will be delivered in alignment with the Policies

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. In developing this documentation, Council has engaged the relevant stakeholders and incorporated appropriate feedback.

Relation to Council policy

6. The Policies align with other existing Council policies

Environmental sustainability

7. There is no relevant environmental sustainably issues or opportunities.

CITY OF MELBOURNE

Financial Sustainability Policy

Effective Date May 2021

Version 1

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1. Purpose and Objectives

As per the Section 9(2) of the Local Government Act 2020 (the Act), 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:

- 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. Surplus and deficits
c. Rates and other revenue
d. 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 financial provides 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 Councillors and Council employees who make decisions or provide advice regarding assets and capital management, surplus and deficits, rates and other revenue, and 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

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. extends the life of the asset beyond its original life;

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)

Force Majeure Event means any circumstances not within the reasonable control of Council, but only if and to the extent that:

a. such circumstance, despite the exercise of reasonable diligence and the observance of good financial conduct, cannot be or be caused to be, prevented, avoided or removed by Council

b. such circumstance, materially and adversely affects the ability of Council to perform business as usual and Council has taken all reasonable precautions, due care and reasonable alternative measures to avoid the financial hardship effect of such event, and to mitigate the consequences thereof.

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

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 a Council's budget

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

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

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

Value of Infrastructure means non-current property, plant and equipment excluding land

4. Financial Sustainability Policy Statements

For the purpose of financial sustainability, if Council were to complete 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 of the proposed projects (by way of business cases) to ensure the Council still meeting its financial sustainability policy while delivering community benefits.

Policy Statements:

Local Government Act Section 101 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 may be applied to measure the Council's financial sustainability:

- Capital Replacement ratio to remain above 1.0x at the end of the financial year
- Council will aim to achieve an Asset Renewal and Upgrade Expense to Depreciation ratio of at least 0.5x at the end of each financial year
- To minimise the risk of financial viability while ensuring its supports towards the community, during the recovery phase subsequent to the Force Majeure Event, Council will aim to gradually improve its financial position as appropriate. As a measure:
    - The Council will aim to maintain a net result margin of more than 0%
- Council will aim to achieve Rates compared to Adjusted Underlying Revenue ratio maximum of 80%
- Council will aim to achieve Rates compared to Property Values ratio of maximum 0.50%
- Council will aim to achieve Expenses per Property Assessment ratio of maximum $5,000
- Council will aim to achieve Rates per Property Assessment of at least $2000 to ensure financial sustainability
- Council will aim to achieve maximum expenditure of $4000 per municipal population
- Council will aim to achieve infrastructure per head of population of at least $6,000
- Council will aim to achieve own-source revenue per head of population of at least $2,000
- Council will aim to maximise its effort to generate recurrent grants with a target to achieve recurrent grants per head of population of $100

5. Financial Sustainability Ratios

Victorian Auditor General Office (VAGO)

VAGO reviews and reports on the financial sustainability of the local government sector. The relevant ratios contained in this policy are:

Indicator	Formula	Description	Risk
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.	High: Less than 1.0 Medium: 1.0 – 1.5 Low: More than 1.5

Indicator	Formula	Description	Risk
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.	High: Less than 0.5 Medium: 0.5 – 1.0 Low: More than 1.0
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.	High: Less than -10% Medium: -10% to 0% Low: More than 0%
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 net result. A surplus or increasing surplus suggests an improvement in the operating position.	High: Less than 0% Medium: 0% - 5% Low: More than 5%

<u>Local Government Performance Reporting Framework</u>

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

Indicator	Formula	Data use/community outcome	Expected Range
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%
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
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

Indicator	Formula	Data use/community outcome	Expected Range
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

6. 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).**

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.

7. Policy Review

The Financial Sustainability Policy will be reviewed:

a. at least every four years as it forms part of the long-term financial plan required by the Act

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.

8. 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

Borrowing Policy

Effective Date May 2021

Version 2

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1. Purpose and Objectives

Council recognises that borrowings for productive purpose or linked to Council's significant major projects is a source of funding as borrowings will be used to benefit present and future ratepayers.

The Borrowing Policy provides the appropriate parameters for Council to undertake borrowings without compromising the application of sound fiscal management principals. The policy framework allows Council the flexibility to respond to funding requirements while minimising risk.

The Borrowing Policy ensures that Council has a sound financial framework on which to:

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

The objectives of the Borrowing Policy are:

a. to manage cash flow
b. to ensure Council's new borrowings are sustainable and comply with legislative requirements
c. 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

2. Scope

The Policy

a. applies to Council employees when considering and determining the budget and long-term financial plan
b. applies to all Councillors and Council employees who make decisions or provide advice regarding borrowings and those involved in the development and adoption of budgets and long term financial plans

Council employees must consider the application of this policy when:

a. considering new borrowings
b. considering leasing
c. refinancing existing borrowings (where long term benefits of refinancing are greater than the cost of exiting the loan).

3. Definitions

Productive Purposes means all activities (excluding participation in beneficial enterprises), including economic reactivation activities post Force Majeure Event, that would enable Council achieving higher capability to generate own-source revenue while considering the full cost impact to the Council or achieving cost efficiency.

Significant Major Projects means a long term investment project, including economic reactivation project post Force Majeure Event, requiring relatively large sums to acquire, construct and/or renew a capital asset (such as buildings). The project would result in a new, expanded or replaced asset that is aligned to Council's strategic goals and ideally generating commercial return to Council. The project exclude participation in beneficial enterprises.

Force Majeure Event means any circumstances not within the reasonable control of Council, but only if and to the extent that:

a. such circumstance, despite the exercise of reasonable diligence and the observance of good financial conduct, cannot be or be caused to be, prevented, avoided or removed by Council

b. such circumstance, materially and adversely affects the ability of Council to perform business as usual and Council has taken all reasonable precautions, due care and reasonable alternative measures to avoid the financial hardship effect of such event, and to mitigate the consequences thereof.

Loans and 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.

Council Budget means the required borrowing identified within the budget.

4. Borrowing Principles and Policy Statements

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

a. Council should not borrow to fund operating expenditure, 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 expenditure should be funded from operating revenue streams whenever possible.

b. Borrowings used to finance items used for Productive Purpose or linked to 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.

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

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

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

5. Borrowing Ratios

Victorian Auditor General's Office (VAGO)

VAGO reviews and reports on the financial sustainability of the local government sector. Two indicators best assess the financial sustainability risks associated with borrowing. Council will report on the following indicators:

Indicator	Formula	Description	Risk
Internal financing (%)	Net operating cash flow / net capital expenditure	This measures the ability of an entity to finance capital works from generated cash flow. The higher the %, the greater the ability of the entity to finance capital works from their own funds Net operating cash flow and net capital expenditure are obtained from the cash flow statement	High: Less than 75% Medium: 75-100% Low: More than 100%
Indebtedness (%)	Non-current liabilities / own-sourced revenue	Comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue. The higher the % the less the entity is able to cover non-current liabilities from revenues the entity generates itself. Own source revenue is used rather than total revenue because it does not include grants or contributions	High: More than 60% Medium: 40-60% Low: 40% or less

It is the Council intention under the Borrowing Policy to operate on average at maximum within the medium target ratio of internal financing and the medium target ratio of indebtedness over the 10 year timeframe in order to project and maintain sound and prudent financial management principals.

Local Government Performance Reporting Framework (LGPRF)

To measure whether the level of debt and other long term obligations is appropriate to the size and nature of Council's activities, LGPRF use the following ratios:

Indicator	Formula	Data use/community outcome	Expected Range
Loans and Borrowings compared to Rates	Interest bearing loans and borrowings divided by 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 – 70%
Loans and Borrowings repayment compared to Rates	Interest and principal repayments on interest bearing loans and borrowings divided by 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 – 20%

It is the Council intention under the Borrowing Policy to operate within the above mentioned target ratio of Loans and Borrowings compared to Rates and Loans and Borrowings repayment compared to Rates for the purpose of long-term financial plan and budget in order to maintain and project sound and prudent financial management principals over the 10 year timeframe.

6. Borrowing Type and Term

When entering into borrowing arrangements, Council will seek to minimise total overall costs of borrowing (including interest costs, initial costs, rating costs, etc) over the long term. Borrowings may be structured as a mixture of short and long-term, fixed and floating interest rates.

In determining a lending institution, Council will assess the appropriateness of the lending institution, including but not limited to:

a. Bank

b. Local Government Funding Vehicle

c. State Government

d. Federal Government

e. Global partner institutions

Council will complete an analysis of the market to enable a recommendation of the borrowing type (lease, bonds, bank loans, other type of borrowing), loan term (number of years), and the interest rate type (fixed or variable). Council will consider the appropriateness of the various types of debt products available and optimise flexibility to balance between timing, maturity and the cost of debt.

7. Leases

Leasing (except short-term and low-value lease as per defined by AASB 16 Leases) as a funding option forms part of Council's overall borrowing strategy and impacts Council's borrowing ratios, therefore it should follow Council's Borrowing Policy.

8. Restrictions

Council will abide by the Act, including section 104 which provides money cannot be borrowed unless the proposed borrowings are included in the budget or a revised budget.

9. 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).**

In developing the Borrowing 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.

10. Policy Review

The Borrowing Policy will be reviewed:

a. annually by the Income and Investment Panel

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.

11. 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.

This framework includes measures in relation to Council's obligations (to determine whether Council's interest bearing loans and borrowings and their repayments are appropriate to the size and nature of Council's activities).

b. The *Local Government Act 2020*

The *Local Government Act 2020* (the Act) provides Councils the power to borrow.

- **Section 95 Revised Budget** states that

  (1) A Council must prepare and adopt a revised budget before the Council –

a. *can make a variation to the declared rates or charges; or*

b. *can undertake any borrowings that have not been approved in the budget; or*

c. *can make a change to the budget that the Council considers should be the subject of community engagement*

(2) *The Council must ensure that a revised budget contains all the information prescribed by the regulations*

(3) *A Council must adopt a revised budget as soon as is practicable after it has been developed*

- **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*

- **Section 104 Borrowings** states that

A Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget

- **Section 111 Process Before Participating in Beneficial Enterprises** states that

(1) A Council must in participating in a beneficial enterprise under section 110—

(a) assess the total investment involved and the total risk exposure and ensure that its total risk exposure does not exceed its total investment;

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

The City of Melbourne

Liquidity Risk and Cash Flow Policy

May 2021

1 Definition of Liquidity Risk

Liquidity risk is the risk that an unforeseen event or miscalculation in the level of liquidity will result, in the inability of the Council to meet financial or operational requirements as and when they fall due.

2 Managing Liquidity Risk

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. Liquidity risk is managed by:

- 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 and average level of cash and cash equivalents to be maintained
- Having a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid investments

To assess the inherent liquidity risk of the Council, the following aspects of the Council must be considered:

- 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 throughout the year; and
- the timing and capacity of borrowing and repayment

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

- Short-term liquidity management;
- Medium-term liquidity management;
- Long-term liquidity management; and
- Bank Relationships.

3 Short-term Liquidity Management

Short-term liquidity management is the management of liquid assets and standby facilities to cover the scenario where a sudden unforeseen event, caused by either internal or external factors, severely inhibits the inward cash flows expected or required.

Short-term liquidity management ensures funds are available as and when required. The primary actions undertaken to manage daily liquidity risk are the management of bank accounts balances and investment decisions made with respect to the short term money market. The instruments available for the investment or borrowing of short term funds are detailed in the Treasury Policy.

3.1 Cash flow forecasting

The principal tool utilised to manage short-term cash flows is the short-term cash flow forecast. 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 could 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 short-term 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. 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 short-term 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, in particular around rate receipts
- Impact of major one-off cash injections or outflows (e.g. cash grants, capital 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.

The short-term cash flow should also be linked to and reflect the medium and longer-term cash position of the Council as detailed in its monthly and yearly budgets and forecasts and will be independently reviewed on an as needs basis.

The council manages its short term liquidity requirements using approved instruments detailed in the Treasury Policy.

4 Medium-Term Liquidity Management

Medium-term liquidity management is monitored by a monthly cash flow forecast modelling that is aligned with the Council's forecast income statement for the same budget years.

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.

Policy Statements

For the purpose of maintaining liquidity and optimising working capital:

- To ensure Council maintains sufficient liquid cash that can be drawn down anytime while maximising returns, Council aims to achieve a cash ratio (cash and cash equivalents/total current liabilities) of between 0.1x and 0.6x at the end of each month.
- To ensure Council can continue paying for its immediate expenses without additional cash inflow, Council aims to achieve a cash expense cover ratio of at least 3 months. This ratio is calculated by current year's cash, cash equivalents and current terms deposits divided by forecast payments from the cash flow of operating and financing activities, multiplied by 12.

The council manages its medium term liquidity requirements using approved instruments detailed in the Treasury Policy.

5 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.

.

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 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.

Policy Statements

For the purpose of managing risk and optimising long-term liquidity:

- Ensure Council maintains sufficient working capital to meet its debt obligations as they fall due, Council aims to achieve a current ratio (current assets/current liabilities) of at least 1.0x at 30 June each year.
- Ensure Council maintains sufficient unrestricted cash to ensure ongoing liquidity as well as to address unforeseen cash imposts if required, Council aims to achieve an unrestricted cash to current liabilities of between 25% and 50% at 30 June each year

6 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 as the power to borrow money cannot be delegated according to Local Government Act 2020, Section 11

7 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.

8 Reporting

The Cash and Investment reporting pack, which is compiled and distributed each month will include the following information:

- Available liquid cash
- The balance of borrowings, if any, and available facilities;
- Forecast debt levels, if any, for current budget year;
- Cash flow forecast
- Total investments.

The annual review of liquidity facilities is required to be tabled at the Income and Investments Panel. The report will include a recommendation regarding ongoing liquidity management. If additional liquidity facilities are recommended, a paper will then be presented to the Executive Leadership Team for approval.

9 Tolerance Levels

Tolerance levels for daily cash report is $250,000 and an explanation for variance above this level will be included on the daily required funds schedule.

Tolerance levels for monthly cash flow analysis report is 5% with an explanation provided for variances above this level.

10 Retention of Supporting Documentation

Documentation relating to the daily cash requirements report including confirmations will be retained for five years.

11 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).**

In developing the Liquidity Risk and Cash Flow Reporting 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.

Appendix 1

Local Government Act 2020 requires Council to prepare a 10 Year Financial Plan that is prepared in accordance to Act and relevant regulation

Section 91 Financial Plan states that

(1) A Council must develop, adopt and keep in force a Financial Plan in accordance with its deliberative engagement practices.

(2) The scope of a Financial Plan is a period of at least the next 10 financial years.

(3) A Financial Plan must include the following in the manner and form prescribed by the regulations—

(a) statements describing the financial resources required to give effect to the Council Plan and other strategic plans of the Council;

(b) information about the decisions and assumptions that underpin the forecasts in the statements specified in paragraph (a);

(c) statements describing any other resource requirements that the Council considers appropriate to include in the Financial Plan;

(d) any other matters prescribed by the regulations.

(4) A Council must develop or review the Financial Plan in accordance with its deliberative engagement practices and adopt the Financial Plan by 31 October in the year following a general election.

(5) The Financial Plan adopted under subsection (4) has effect from 1 July in the year following a general election.

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. *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*

Local Government (Planning and Reporting) Regulations 2020 prescribes the information to be included in a the Council's 10 Year Financial Plan prepared as per Section 91 of the Local Government Act 2020

5 Statements describing financial resources

(1) For the purposes of section 91(3)(a) of the Act, the statements describing the financial resources must be in the form set out in the Local Government Model Financial Report.
(2) For the purposes of section 91(3)(d) of the Act, the prescribed matters include a statement of capital works for the financial years to which the statements describing the financial resources referred to in section 91(3)(a) of the Act relate.

Restricted Cash definition: *cash, cash equivalents and financial assets, within the meaning of the AAS, not available for use other than for a purpose for which it is restricted, and includes cash to be used to fund capital works expenditure from the previous financial year.*

Unrestricted cash definition*: all cash, cash equivalents and financial assets, within the meaning of the AAS, other than restricted cash*

The Local Government Performance Reporting Framework aims to provide comprehensive performance information that meets the needs of a number of audiences. Reliable comparative performance information can help councils better understand the strengths and weaknesses of each approach. It provides the Council with Better Practice Guide and benchmarking.

City of Melbourne

Governance Policy for Wholly-Owned Subsidiary Companies

-May 2021
This report contains 30 pages
DM 7008580

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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.

The management reviews these corporate governance protocols at least annually, and makes changes as necessary.

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.

A. Governance 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.

- **Requirement for Minister and Treasurer approval**
    a. Section 110 and 111 of the LGA does not require the Minister or Treasurer to approve a Council's participation in a beneficial enterprise
- **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).

- **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 through the Finance and Governance Committee 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 and Governance Committee;
- 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.

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, 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

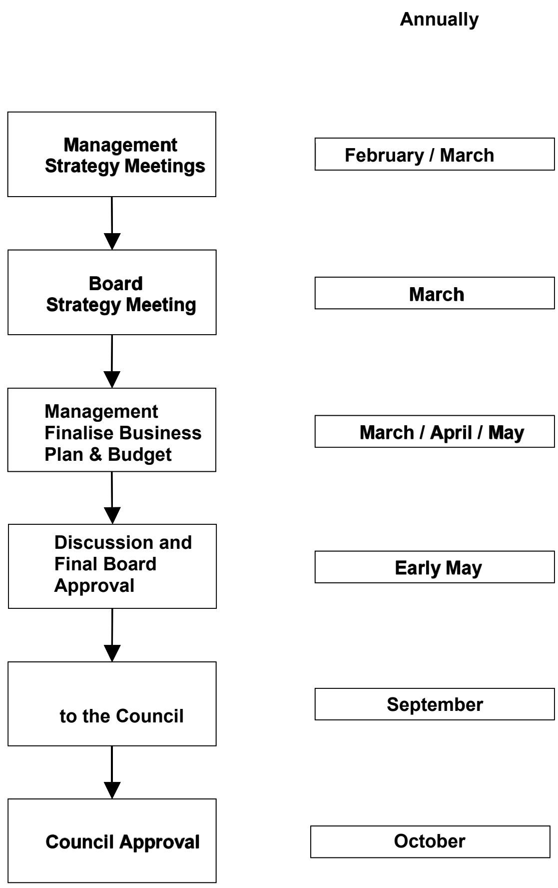
The Directors of the Subsidiary Boards, the Council as shareholder, and as represented by the Finance and Governance Committee, the Audit Committee and Council Corporate Managers in their decision-making and/or reviewing roles need to take a balanced approach when dealing with the needs and expectations 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 Corporate 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

Through the Finance and Governance Committee ("the Committee"), the Council is able to provide policy input in the early stages of the strategic planning process of the Subsidiaries and to articulate any expectations, priorities or objectives.


Annually
Management Strategy Meetings
February / March
Board Strategy Meeting
March
Management Finalise Business Plan & Budget
March / April / May
Discussion and Final Board Approval
Early May
to the Council
September
Council Approval
October

The Subsidiary Board Director's 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]

1.1 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] ASX Corporate Governance Council – Corporate Governance Principles and Recommendations – Principle 1 (4th Edition 2019).

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 policy

The subsidiary company should:

(a) have and disclose a diversity policy;

(b) through its board or a committee of the board set measurable objectives for achieving gender diversity 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 diversity;

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

  (3) either:

    (a) the respective proportions of men and women on the board, 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.

1.7 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]

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 *Local Government Act*.

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 *Local Government Act* 2020 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

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

(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.

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, a representative from the Council or the Council's Corporate Management Team (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.

A sample Committee Charter is included in Appendix A

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 Corporate Management Team (or equivalent) when discussing the nomination of new Directors.

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.
- **Appoint Joint Nomination Committee:** The Chair of the subsidiary board or nominee of the chair in liaison with Chair of Finance and Governance Committee or nominee will appoint a joint nomination committee. Secretariat will be provided by Director Corporate Business or nominee. This activity should commence at least five months prior to the director appointment date.
- **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 Corporate Management Team (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]

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; and
- 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.

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

3.2.1. 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.

3.2.2. Committee meetings

- Audit 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] ASX Corporate Governance Council – Corporate Governance Principles and Recommendations – Principle 3 (4th Edition 2019).

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
- Ant-bribery and corruption policy

4 Protocol 4: Safeguard integrity in financial reporting[4]

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 Committee

Each Subsidiary Board should have an Audit 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 Committee, although he or she may be a Member.

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

Each Audit 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, which comprises three Councillors, including the Chair of the Finance and Governance Committee. It also has an independent Chair (that is, a person who is neither a Council Officer nor an elected Member of Council)

The key functions of the Subsidiary Company Audit 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 Committee exists.

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

4.3 Council's audit Committee protocols

The Council's Audit Committee has in place the following protocols for the Subsidiary Boards through their Audit 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 Committees should meet at least annually for exchange of information and ideas.

- **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 Committee charters, including any proposed changes thereto, at such time as the charters are reviewed.

- **Risk profile**

The Subsidiary Boards to provide a macro risk profile at least annually to the Council Audit Committee and to advise the Audit Committee of any significant changes to that profile. In addition the Subsidiary Boards are to provide the following reports to the Council Audit 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
- 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. 4.4.2.Quarterly (30th Sept, 31st Dec, 31st Mar and 30th June)
- 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.

4.4.3. Quarterly Audit & Risk Reports

- Chairpersons of the subsidiary Audit and Risk Committee (ARC) are required to attend Council's ARC.
- The Chairpersons are to presents their respective quarterly ARC report to Council ARC.

4.4.4. Annually (30th June)

- Annual report, statement of accounts and proposed dividend.
- 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.
- 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.

4.4.5. 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]

5.1 Continuous disclosure

The 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".

5.2 Informal meetings

The Chairpersons of the Subsidiary Boards meet the Lord Mayor at least annually. The Chair, Audit Committee Chair, CEO and the CFO may also attend the meetings of the Council Audit Committee and the Finance and Governance Committee, 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.

[5] ASX Corporate Governance Council – Corporate Governance Principles and Recommendations – Principle 5 (4th Edition 2019).

6 Protocol 6: Respect the rights of shareholders[6]

6.1 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.

6.2 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.

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

7 Protocol 7: Recognise and manage risk[7]

7.1 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;
- 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 Audit and Risk Committee and to advise the Council Audit and Risk Committee of any significant changes to that profile.

[7] ASX Corporate Governance Council – Corporate Governance Principles and Recommendations – Principle 7 (4th Edition 2019).

7.2 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.

Failure to consider the reasonable expectations of stakeholders can threaten a Company's reputation and the success of its business operations. Effective risk management involves considering factors which bear upon the Company's good standing with its stakeholders.

The Audit Committee may decide that risk standards and policies are needed to institutionalise the activities to manage a particular risk. Such standards and policies would normally be applied across the entire business. At an operational level, the standards and policies can often be based around generally accepted technical practice. For risks of a more strategic nature, it is often necessary to draft original policies. Good risk management practice sees the introduction of risk standards and policies coordinated in a structured way, with appropriate implementation and change management plans.

A Company's risk management policies should clearly describe the roles and accountabilities of the Board, Audit Committee, or other appropriate Board Committee, Management and any Internal Audit function.

7.3 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 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

7.4 Risk Management Committee

The Audit 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.

7.5 Management attestation on financial risks reporting

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.

8 Protocol 8: Remunerate fairly and responsibly[8]

8.1 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.

8.2 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.

8.3 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.

[8] ASX Corporate Governance Council – Corporate Governance Principles and Recommendations – Principle 8 (4th Edition 2019).

Board remuneration recommendations are to be submitted in advance of each Company's annual general meeting, to the Council's Finance and Governance Committee for consideration.

8.4 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's Finance and Governance Committee for consideration.

8.5 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's Finance and Governance Committee for consideration.

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 two members: the first the Chairperson of the subsidiary or nominee of the Chairperson and the second the Chair of the Council Finance & Governance Committee.

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 Secretary at the request of the members of the committee.

Minutes

Minutes of meetings of the committee shall be kept by the Secretary 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 City of Melbourne.

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.

The City of Melbourne

Treasury Policy Statement

May 2021

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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;
- Optimise cash resources, in such a way as to maximise net financing income and maximise the investment portfolio within acceptable levels of risk;
- 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:

- borrowings and investments;
- interest rate risk management transactions;
- foreign exchange risk management transactions; and
- commodity price risk and exposure management transactions.

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 Policy.

4 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;
- 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.

Usage of derivative products to manage financial risk is restricted to bona fide hedging purposes only. For the purposes of this Policy Statement, the following criteria must be met to constitute a hedge:

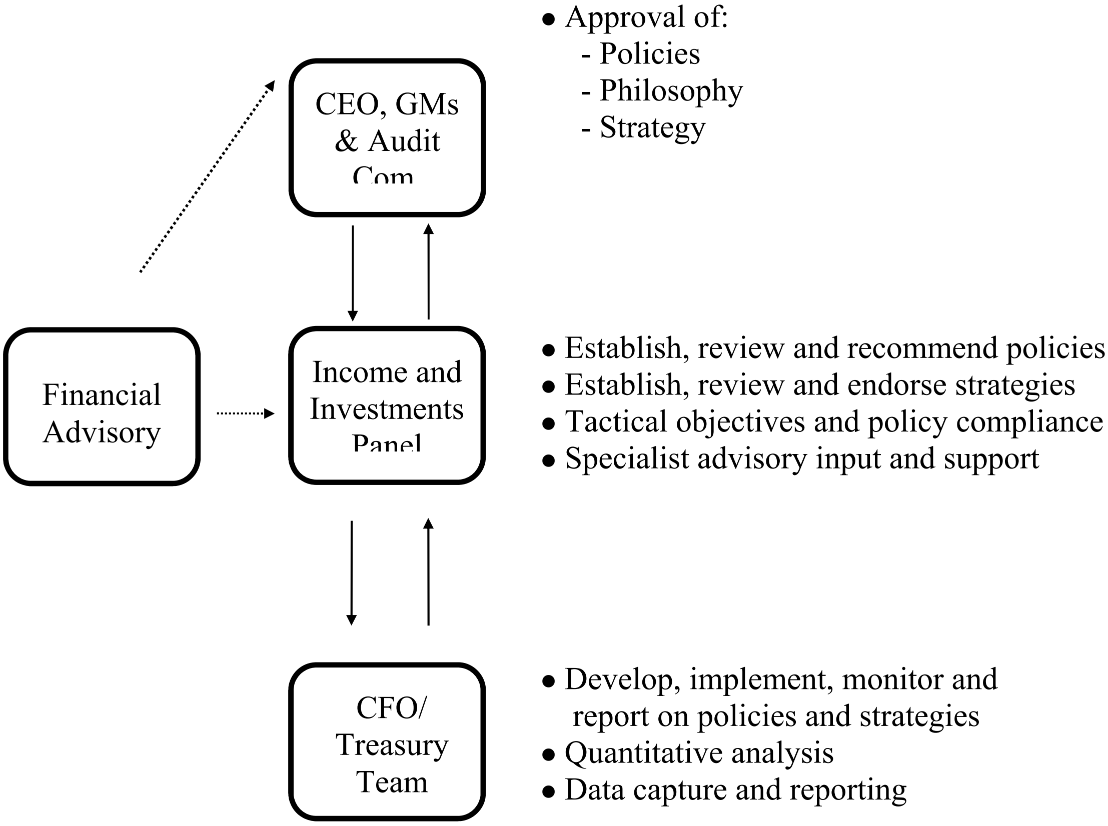
- the item to be hedged must expose the Council to financial risk from interest or exchange rate, or commodity price movements;
- the instrument must be designated as a hedge at the time of taking out the hedge;
- the instrument must contribute to the reduction of exposure to financial risk; and
- the item must not already be effectively hedged by an off-setting risk.

5 RISK MANAGEMENT FRAMEWORK

The Finance and Investment Branch (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:



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

The Income and Investment Panel meets on a quarterly basis or more frequently as required. The meetings are minuted.

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.

6 RISK MANAGEMENT APPROACH

6.1 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.

6.2 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 - 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 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 Team Leader Investments and Analysis. All foreign currency risk exposure is to be managed within Council approved parameters as set out in Schedule two.

6.3 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.

Credit risk managed by this policy only extends to financial counterparties arising from activities conducted externally by Treasury.

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

The percentage exposure limits will only apply where the cash portfolio is greater than minimum working capital requirement of $50 million.

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.

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.

6.4 Liquidity 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.
Management of liquidity covers:

- Short Term Liquidity - the combination of effective daily bank account management and efficient cash management to ensure funds are available when needed.
- 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.

Executive Leadership Team has empowered the Chief Financial Officer, Director of Finance and Investment and the 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, 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.

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 Corporation.

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

Please also refer to document #7637401 Liquidity risk and Cash Flow Reporting policy for additional policies and applicable ratios on liquidity risk.

6.5 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.

6.6 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.

6.7 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.

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 above, procedure to follow is stated in Schedule 3 – Credit Risk

7 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;
- Audit Committee;
- Income and Investments Panel;
- Chief Financial Officer; and
- Treasurer.

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 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 Audit Committee

- Review the content of the Treasury Policy when required and oversee risk mitigation and exposure.

Role of the Income and Investments Panel

- To meet on a quarterly basis 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

* Review Treasury Policy 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 Investment and Analysis Team; and
* To develop and review (on an annual basis) the Treasury Policy Statement;

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.

8 ACCOUNTING FOR TREASURY TRANSACTIONS

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

9 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; 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 the Council.

The performance of the Treasury Team will be objectively measured through the establishment of annual KPI's agreed with the Chief Financial Officer prior to commencing each Financial Year.

10 REPORTING

A reporting framework to serve management, monitoring and control purposes 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 Income and Investments Panel and Executive Leadership Team is undertaken on a regular basis. 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 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; and
- exceptions to approved policy and proposed action.

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

11 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 and be retained for five years.

12 REVIEW

Treasury policy is to be reviewed by Chief Financial Officer, Director of Finance and Investment and the 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.

13 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. *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*

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 have been approved by Council.

<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</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 <u>not</u> 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 have been approved by Council.

ITEM	APPROVED LIMITS
Foreign Currency Exposure Hedging	In accordance with current Victorian Government policy, all 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:	Unlimited	$25M	$15M	Unlimited
AA+, AA, AA- : Tier one bank	Unlimited	$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

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 there it is not possible to spread the risk across counterparties as allowed by the above criteria, then an exception must be sought from the Income and Investments Panel to allow a variation that must be reported daily to the Director Finance and Investments. The exception must be reaffirmed each month by the CFO and reported to the Income and Investments panel.

Schedule 3 (Cont'd) CREDIT RISK - CONTINUED

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

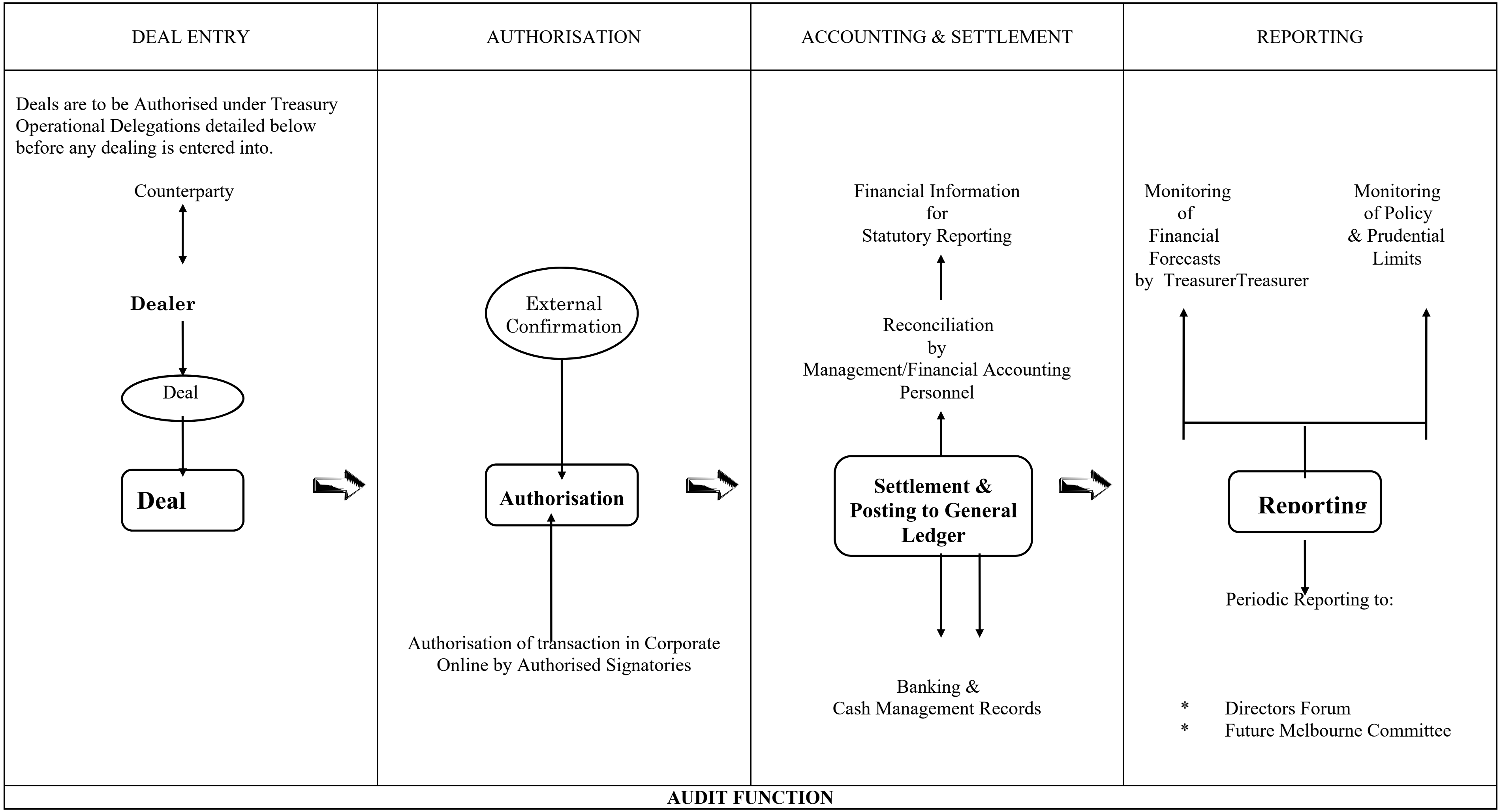
The following instruments and products have been approved by Section 143 (1) (formerly Section 138 (1)) of the Local Government Act.

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

Schedule 4 (Cont'd) APPROVED INSTRUMENTS - CONTINUED

CATEGORY	COUNTERPARTY	INSTRUMENT
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



Schedule 6 TREASURY OPERATIONAL DELEGATIONS

The following Treasury operational delegations have been approved by Directors' Forum

Financial Function/Transactions	APPROVAL				
	Council	Chief Financial Officer	Financial Controller	Treasurer	Treasury team staff
Invest/ Redeem Corporation's Funds	Unlimited	$50M	$30M	$5M	$0
All borrowing arrangements	Unlimited	$0	$0	$0	$0
Hedging - Financial Risk Management Products (FX)		$10M	$10M	$5M	$0
Arrange Debt Retirement Transactions		$0	$0	$0	$0

The City of Melbourne can borrow funds for future strategic investment projects which achieve at least a neutral cash flow impact.

Any issue of debt can only be authorised by Council.

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.