

## 6.5 Refresh of Treasury Policy

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**Report Presenter:** Lincoln Tong, Chief Financial Officer

**Executive Leader:** Mans Bassi, Chief Operating Officer

### Executive Summary

1. The Treasury policy is to be reviewed by the Chief Financial Officer (CFO) and the Financial Controller 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 is reported to the Executive Leadership Team (ELT).
2. A refresh of the Treasury policy is required to reinstate two requirements that were inadvertently removed / amended in the previous policy refresh in May 2023. These requirements relate to a maximum deposit limit allowed for each Authorised Deposit Taking Institution (ADI) and the enforcement of portfolio limits when overall cash balances reach a specific level.
3. The current policy requires management to move excess funds into other ADI's. However, current interest rates mean that moving the excess funds costs council as our Westpac operating account has been offering better rates than all other banks.

### Recommendation from management

4. That Council resolve to adopt the changes to the Treasury Policy outlined in Attachment 1 of the report from management.

## Purpose

5. To seek Councillor approval to the changes to the Treasury Policy as outlined in the Summary of Changes and the attached policy.

## Background

6. Per section 16 of the Treasury policy, the policy is to be reviewed by the Chief Financial Officer (CFO) and the Financial Controller on an annual basis at a minimum. Any proposed changes are to be recommended in a briefing paper initially to the Investment and income Panel with CFO approval, and the reported to the Executive leadership Team (ELT).
7. The Treasury policy was last updated in May 2023. The main purpose of the update was to streamline the various treasury related policies and blend the Treasury policy, the Borrowing policy and the Liquidity, Risk and Cashflow Forecasting policy into one overarching policy.

## Key considerations

8. A refresh of the Treasury policy is required to reinstate two requirements that were inadvertently removed / amended in the previous policy refresh in May 2023. These requirements relate to the maximum deposit limit allowed for each Authorised Deposit Taking Institution (ADI) and the enforcement of portfolio limits when overall cash balances are less than \$50 million.
9. The removal / amendment of these two requirements has resulted in sub-optimal day-to-day cash management practices due to the lack of competitive interest rates for at-call and term deposit accounts, combined with Council's low cash balance at various times of the year. Reinstatement of the two requirements will allow for more effective cash management and maximise the return to Council. The two requirements would be reinstated in line with the same requirements as approved by Council in May 2021.
10. Summary of the main changes to the policy:

### 10.1. Section 7 Risk Management Approach, 7.3 Credit Risk

- 10.1.1. Reinstating the below paragraph as paragraph six under the 7.3 Credit Risk heading. This will allow for funds to stay on deposit with lower rating institutions when overall cash balances temporarily dip due to operational requirements without Treasury personnel moving funds to institutions potentially offering less advantageous interest rates in order to satisfy daily changing portfolio percentages limits.

"The percentage exposure limits will only apply where the cash portfolio is greater than \$50 million. The dollar exposure limits will always be enforced."

### 10.2. Schedule 3 CREDIT RISK:

- 10.2.1. Reinstating unlimited deposits for AAA / AA / Tier one bank to take advantage of more favourable rates offered without an upper limit of the funds held with each institution.

Rating *	Authorised Deposit Taking Institution (ADI)	Managed Funds	Other Rated Entities	Total Portfolio Limits
AAA:	\$60M Unlimited	\$25M	\$15M	Unlimited
AA+, AA, AA-:	\$40M Unlimited	\$15M	\$5M	Unlimited
Tier one bank				

A+, A, A-:	\$20M	\$0	\$2.5M	50%
BBB+, BBB (no negative watch):	\$15M	\$0	\$0	25%

11. Summary of minor changes to the policy:

Section / Paragraph	Existing Text	Suggested Refreshed text (blue)
Section 6 Risk Management Framework Paragraph (1)	The Finance and Investment Branch	The Finance Rates and Investment Branch
Section 6 Risk Management Framework Paragraph (4)	The Income and Investment Panel meets on a quarterly basis or as required. The meetings if held are minuted. In the absence of a meeting the Treasury team will distribute its report quarterly to the members of the Income and Investments Panel and Chief Executive Officer.	The Income and Investment Panel meets on a quarterly basis or as required. The meetings if held are minuted. Reports will be distributed to the panel members and the Chief Executive Officer quarterly, prior to each meeting. In the absence of a meeting reports will be distributed prior to the previously scheduled meeting date.
Section 7 Risk Management Approach 7.3 Credit Risk Paragraph (9)	An example – if Council has deposited \$30 million in an investment fund with a AA bank (the maximum limit for AA banks), and due to economic conditions, the bank is downgraded to an A+, we would need to reduce our holdings to \$20 million as per the policy (see schedule 3 below) as soon as is practicable after taking into account fees and lost interest due to withdrawing prior to maturity.	An example – if Council has deposited \$20 million in an investment fund with an A bank, and due to economic conditions, the bank is downgraded to a BBBA+ for example, we would need to reduce our holdings to \$15 million as per the policy (see schedule 3 below) as soon as is practicable after taking into account fees and lost interest due to withdrawing prior to maturity.  *Example updated to reflect proposed schedule 3 table limit reinstatement.
7.4 Liquidity and Cash Flow Risk Paragraph (4)	The management approach to liquidity risk can be summarised under the areas of:  •Cashflow Forecasting  •Short-term liquidity management  •Medium-term liquidity management  •Long-term liquidity management  •Bank Relationships; and  •Borrowing	The management approach to liquidity risk can be summarised under the areas of:  •Cashflow Forecasting  •Short-term liquidity management;  •Medium-term liquidity management;  •Long-term liquidity management; and  •Bank Relationships.; and  •Borrowing-

		*Borrowing is inherent in liquidity management, listing it separately is redundant.
7.4 Liquidity and Cash Flow Risk Cashflow Forecasting Paragraph (3)	The cash flow forecast is prepared for a minimum of three months forward forecasts, with the Treasury team forecasting, monitoring and updating it on a daily basis, following discussion with the Financial Controller/Treasurer	The cash flow forecast is prepared for a minimum of three months forward forecasts, with the Treasury team forecasting, monitoring, updating <b>and reviewing</b> it daily, including a weekly discussion with the Financial Controller <del>following discussion with the Financial Controller/Treasurer.</del>
7.4 Liquidity and Cash Flow Risk Long-Term Liquidity Management Paragraph (5)	Responsibility for budgeting, updating, maintaining and forecasting the profile of the cash flow statement and relevant balance sheet components is delegated to the Financial Operations and the Treasury teams to ensure likely cash flow peaks and troughs are identified in advance, with remedial action taken to mitigate against these threats as appropriate.	Responsibility for budgeting, updating, maintaining and forecasting the profile of the cash flow statement and relevant balance sheet components is delegated to the <del>Financial Operations</del> and the Treasury teams to ensure likely cash flow peaks and troughs are identified in advance, with remedial action taken to mitigate against these threats as appropriate.
7.4 Liquidity and Cash Flow Risk Bank Relationships Paragraph (3)	The general fund bank account balance of Council is to be kept at a level that is sufficient to meet Council's immediate cash flow requirements (reviewed weekly), with any surplus funds being applied to reducing debt if beneficial or placed on investment.	* <b>Remove (reviewed weekly)</b> as the cashflow is reviewed daily as mentioned under Cashflow Forecast paragraph 3.
11 Roles and Responsibilities	Role of the Financial Controller/Treasurer	Role of the Financial Controller/ <del>Treasurer</del>
16 Review	Treasury policy is to be reviewed by Chief Financial Officer, Director of Finance, Rates and Investment and the Financial Controller/Treasurer on an annual basis at a minimum.	Treasury policy is to be reviewed by Chief Financial Officer, Director of Finance, Rates and Investment and the Financial Controller/ <del>Treasurer</del> on an annual basis at a minimum.
In addition, there were some minor changes to numbering formats for consistency and removal of erroneous text.		

## Legal

12. Section 102(1) of the *Local Government Act 2020* provides 'A Council must prepare and adopt financial policies that give effect to the financial management principles' which are set out in section 101(1) of the Act.

## Finance

13. There are no immediate impacts on operating results or capital expenditure relating to the changes requested in the policy. However, the changes will provide the opportunity for management to maximise

interest revenue by choosing to move funds as and when interest rates are favourable rather than when reaching pre-determined balance limits

#### **Conflict of interest**

14. 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.

#### **Charter of Human Rights and Responsibilities**

15. The recommendation contained in this report is compatible with the *Charter of Human Rights and Responsibilities 2006* as it does not raise any human rights issues.

#### **Health and Safety**

16. In developing this proposal, no Occupational Health and Safety issues or opportunities have been identified.

#### **Consultation**

17. Consultation was not required, as bank accounts are managed solely by the Financial Operations team within the Finance, Rates and Investment branch, and in compliance with the policy being presented.

#### **Relevance to Council Plan and Council Policies**

18. The Treasury policy is part of the Finance, Rates and Investment branch's policies for internal controls, and compliance in regard to Treasury management. City of Melbourne Annual Budget and Council Plan is adopted based on controls outlined in the Treasury policy.
19. The Treasury policy forms the basis of good cash management within the City of Melbourne, and the recommended change to the policy will enhance the management capability of the Financial Operations and Treasury teams.

#### **Social and environmental impacts**

##### **Social impacts**

20. There are no social impacts associated with the recommendation from management impacts upon local commerce;

##### **Gender Impact Assessment**

21. A Gender Impact Assessment is not required for this report

##### **Environmental impacts**

22. No environmental sustainability issues or opportunities are considered relevant to this proposal

#### **Attachment List**

1. Treasury Policy DRAFT Changes Sep 24 [6.5.1 - 30 pages]



## Treasury Policy

Effective Date: ~~May 2023~~ February 2025

**Commented [ML1]:** To be updated when effective date known

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

### 3 SCOPE

The Policy Statement applies to all City of Melbourne:

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

#### 4 DEFINITIONS

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

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

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

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

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

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

#### 5 RISK MANAGEMENT PHILOSOPHY

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

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

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

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

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

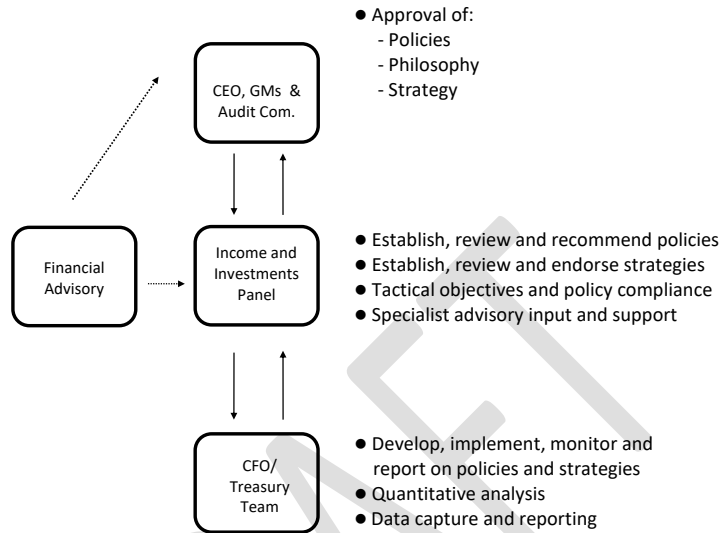
**6 RISK MANAGEMENT FRAMEWORK**

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

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

DRAFT

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



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

The Income and Investment Panel meets on a quarterly basis or as required. The meetings if held are minuted. [Reports will be distributed to the panel members and the Chief Executive Officer quarterly, prior to each meeting.](#) In the absence of a meeting [the Treasury team will distribute its report quarterly to the members of the Income and Investments Panel and Chief Executive Officer reports will be distributed prior to the previously scheduled meeting date.](#)

**Commented [ML2]:** Query – The sentences reads as the CEO is only to receive the report in the absence of a meeting...is this the true intent?

**Commented [AW3R2]:** I think it reads as the reports are distributed to the members of the panel and the CEO

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

The Financial Advisory Services will be provided by an entity or person:

- Approved by Management
- Licensed by ASIC
- An independent person/entity that has no actual or potential conflict of interest in relation to investment products being recommended.

The Income and Investment Panel will facilitate:

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

Reporting and performance is included in monthly management reports.

## 7 RISK MANAGEMENT APPROACH

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

### 7.1 Interest Rate Risk

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

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

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

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

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

## 7.2 Foreign Currency Risk

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

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

These currency exposures are recognised and managed as follows:

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

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

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

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

## 7.3 Credit Risk

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

Credit risk arises primarily from:

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

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

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

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

The percentage exposure limits will only apply where the cash portfolio is greater than \$50 million. The dollar exposure limits will always be enforced.

**Commented [AW4]:** This was inadvertently removed at last policy review. It has caused unnecessary administration when balance drops below this level.

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

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

An example – if Council has deposited ~~\$230~~ million in an investment fund with a AA bank (the maximum limit for AA banks), and due to economic conditions, the bank is downgraded to a ~~BBB+~~ BBB+ for example, we would need to reduce our holdings to ~~\$2015~~ million as per the policy (see schedule 3 below) as soon as is practicable after taking into account fees and lost interest due to withdrawing prior to maturity.

**Commented [ML5]:** Incorrect limit - \$40m in table for AA however we want this to revert back to unlimited, so this example needs to change anyway

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

**7.4 Liquidity and Cash Flow Risk**

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

Liquidity risk management has the objective of ensuring adequate funding is available at all times to meet the commitments of the Council as and when required.

To assess the liquidity risk of the Council, the following should be considered:

- Monitoring on a daily, weekly and monthly basis as required to ensure the Council maintains sufficient cash resources to meet its obligations
- Having a liquidity target for a minimum of \$5m of cash and cash equivalents to be maintained via Treasury’s Daily Cash Forecast
- Having a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid investments
- Having sufficient external borrowing facilities available to cover periods of cash shortfall.
- the predictability of grant and rates receipts and other revenue cash flows;
- the ability to predict operating, capital and administration expenses with reasonable precision;
- the timing of major capital expenditures, and event related expenditure throughout the year; and
- the timing and capacity of borrowing and repayment requirements.

**Commented [ML6]:** Does this minimum need to be stated in the policy?? Our cashflow target is \$5 but +/- 1.5m before it triggers borrowing. By stating this minimum in the policy it is now a hard target. Suggest we revert this back to the previous phrasing:  
 “Having a liquidity target for a minimum and average level of cash and cash equivalents to be maintained”

**Commented [AW7R6]:** I think we need to have a number in there, as the above is too open ended. It is only a target not a limit, so not bound by it.

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

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

**Commented [ML8]:** This is redundant, borrowing is part and parcel of liquidity management.

**Cashflow Forecasting**

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

Variations may be caused by:

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

The cash flow forecast is prepared for a minimum of three months forward forecasts, with the Treasury team forecasting, monitoring, and updating, and reviewing -it on a daily basis, following discussion with the Financial Controller/Treasurer, including a weekly discussion with the Financial Controller. 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.

**Commented [ML9]:** This reads as if discussions are held daily. Shall we revert back to daily cash approvals?

**Commented [ML10]:** Updated per AW II&P Briefing Paper feedback on 20/12/24.

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

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

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

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

#### **Short Term Liquidity Management**

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

#### **Medium-Term Liquidity Management**

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

The council manages its medium term liquidity requirements using approved instruments detailed in this policy.

#### **Long-Term Liquidity Management**

Long-term liquidity management is the ongoing process of ensuring funding is available to meet future long-term financial requirements. Long-term liquidity management identifies

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

- Leverage (the magnitude of borrowings compared to revenue); and
- the debt maturity profile (the time remaining to the scheduled or specified maturity).

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

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

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

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

**Commented [ML11]:** Addition not present in the same statement when mentioned twice before in this same section. Should the statements be the same throughout? Or is there a specific difference related to long-term liquidity risk where fin ops becomes involved.

**Long-Term Liquidity - Approved Instruments & Delegation of Authority**

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

**Bank Relationships**

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

The Treasury team is required to actively promote such relationships and whenever possible, Council will be spread across the range of key relationship banks.

The Executive Leadership Team has empowered the Chief Financial Officer, Director of Finance, Rates and Investment and the Financial Controller, ~~Treasurer~~ to establish all banking and funding facilities (including bank overdraft) necessary to provide adequate liquidity.

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

**Commented [ML12]:** This is managed daily and earlier under Cashflow forecasting it states that cash is discussed daily with FC. This comment reads as though it is looked at weekly. The two comments are inconsistent.

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

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**7.5 Commodity Risk**

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

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

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

**7.6 Operational Risk**

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

These risks include financial loss due to mismanagement, error, fraud, or unauthorised use of techniques and/or financial products.

The objective of managing operational risk is therefore to ensure the potential for such financial loss is reduced through maintaining an effective processing and control framework covering treasury activity.

Management of operational risk is addressed by:

- appropriate organisation structuring and staffing - established risk management framework encompassing clearly defined roles and responsibilities, adequate segregation of duties, and properly trained and skilled staff. The framework for treasury transaction processing is set out in Schedule ~~five~~5;
- approved treasury management operational delegations - fully documented dealing and authorisation limits as set out in Schedule ~~five~~6;

**Commented [ML13]:** Inconsistent number reference, previous ones are numerical

- established policy and procedures - properly documented financial risk management policies and general operating procedures;
- independent audit and control practices - monitoring and reconciliation controls maintained by ongoing corporate risk assessment program, supported by independent internal and external audit review. The review of treasury management operations is included from time to time in the City of Melbourne internal audit program;
- effective reporting function - program of regular and independent reporting serving management, monitoring and control purposes and covering all treasury activity, exposures and (non-) compliance with policy; and
- integrity of information and systems - coordinated plans covering security, backup (including disaster recovery) of treasury systems and information assets.

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

#### 7.7 Risk Appetite

The City of Melbourne will only invest in financial instruments listed in [Schedule 4](#) of this policy. Counterparty limits are specified in schedule three of the policy and the credit rating reflects the inherent probability of default.

Investments and borrowings should have a variety of maturity dates in order to spread exposure to interest rate movements and manage cash flow requirements.

The portfolio liquidity parameters (duration limits) specify the maximum and minimum amounts or percentages of the Council's total investment portfolio that can be held within the various investment maturity bands. The liquidity / maturity profile of the total portfolio must comply with the parameters shown in Schedule 1.

- Minimum thresholds are set to ensure that there will always be an adequate amount of liquidity available in earlier maturity bands before funds may be committed to longer term investments. The minimum thresholds are higher in the shorter term where liquidity is of the greatest concern.
- Maximum thresholds are set to control the proportion of the total portfolio that can be invested into longer term investments to ensure that Council has adequate access to short and medium term liquidity to satisfy its business objectives. The maximum thresholds reduce as the maturity horizon extends further into the future.

Investment threshold limits may be exceeded when investments are redeemed to fund cash flow and there is limited capacity to rebalance the portfolio. All new investments must be placed in a way so the thresholds are rebalanced as soon as practical. If thresholds are exceeded when placing an investment, Council will take steps to rebalance the portfolio

within 60 days to ensure that all investments adhere to the threshold limits, taking into consideration risk, penalties and lost interest.

Maximum maturity term shall not exceed 5 years.

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

## 8 BORROWING

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

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

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

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

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

The objectives of this section are:

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

### 8.1 Borrowing Principles

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

- Council will not borrow to fund operating expenditure (other than for short-term working capital needs as cash flows dictate), recurrent or regular capital works which is inclusive of acquisition, replacement or renewal of assets (e.g. road resurfacing, new or upgraded pavilions and promenades). These types of expenditure should be funded from operating revenue streams.

- Borrowings used to finance Capital Investment for capital discretionary and strategic purpose (Council's Significant Major Projects) should not be drawn down until the commencement of the project and shall include a repayment plan contained in a business case.
- The term of any loan should not exceed the life of the asset.
- Council should not borrow to participate in beneficial enterprises where it will make Council's total risk exposure exceeding its total investment.
- Council will not enter into a lease (as per defined by AASB 16 Lease) where it will make Council breach this policy – see 8 LEASES.

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

### 8.2 Borrowing Ratios

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

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

### 8.3 Borrowing Type and Term

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

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

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

## 9 LEASES

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

## 10 FUNDING OF STATUTORY AND DISCRETIONARY RESERVES

The Council maintains both Statutory and Discretionary Reserves that acknowledge the receipt of funds from particular sources to be applied on programs that are consistent with the purpose of that Reserve fund.

Funding allocations from Reserves will be determined during the budget process and the Treasury team will be required to plan and ensure that the Council maintains adequate cash and funding sources to cover Reserves.

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

## 11 ROLES AND RESPONSIBILITIES

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

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

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

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

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

### *Role of the Executive Leadership Team*

- Approve the overall financing and risk management strategy;

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

**Role of the Income and Investments Panel**

- To meet/review on a quarterly basis or as required, as a forum for strategic management overview, including the processes of:
  - reviewing previous quarter’s transactions and results;
  - establishing views on likely future economic factors;
  - setting out risk exposures;
  - establish and endorse strategies; and
  - recording and minuting decisions and rationale.

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

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

**Role of the Financial Controller/~~Treasurer~~**

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

**Role of the Audit and Risk Committee**

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

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

**12 ACCOUNTING FOR TREASURY TRANSACTIONS**

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

**13 PERFORMANCE MEASUREMENT**

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

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

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

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

**14 REPORTING**

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

The structure of this framework consists of:

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

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

Reporting to Income and Investments Panel should include:

- details of treasury transactional activities;
- details of portfolio composition and position;
- summary of financial risk management activity;
- liquidity position and future requirements;
- strategic issues;
- details of performance against measures;
- exceptions to approved policy; and
- operational issues.

Reporting to Executive Leadership Team should include:

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

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

**15 RETENTION OF DOCUMENTATION**

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

**16 REVIEW**

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

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**17 COMPLIANCE WITH THE GOVERNANCE PRINCIPLES**

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

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

**Appendix 1. References LGA 2020**

**Local Government Act 2020** provides Councils the power to invest

**Section 101 Financial Management Principles** states that

- 1) *The following are the financial management principles –*
  - a) *Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans*
  - b) *Financial risks must be monitored and managed prudently having regard to economic circumstances*
  - c) *Financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community*
  - d) *Accounts and records that explain the financial operations and financial position of the Council must be kept*
- 2) *For the purposes of the financial management principles, financial risk includes any risk relating to the following:*
  - a) *The financial viability of the Council*
  - b) *The management of current and future liabilities of the Council*
  - c) *he beneficial enterprises of the Council*

**Section 102 Financial Policies** states that

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

**Section 103 Investments** states that

A Council may invest any money:

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

**Schedule 1 INTEREST RATE RISK**

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

ITEM	APPROVED LIMITS										
Investment Policy Statement and Annual Borrowing Program	Program to be conducted subject to: approval from Council; and approvals from the Victorian Government (Borrowing only)										
Duration Limits	<p>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.</p> <p>Duration limits on long-term securities are to be set within Overall Portfolio Term to Maturity Limits detailed below</p> <table border="1" data-bbox="507 1099 995 1330"> <thead> <tr> <th colspan="2">Overall Portfolio Term to Maturity - Cash &amp; Fixed Interest</th> </tr> </thead> <tbody> <tr> <td>Portfolio %&lt;1 year</td> <td>100% Max; 40% Min</td> </tr> <tr> <td>Portfolio %=&lt;2 year</td> <td>60% and rated BBB+ and above</td> </tr> <tr> <td>Portfolio %=&lt;3 year</td> <td>35% and rated A and above</td> </tr> <tr> <td>Portfolio %=&lt;5 year</td> <td>25% and rated AA- and above and tier one banks.</td> </tr> </tbody> </table>	Overall Portfolio Term to Maturity - Cash & Fixed Interest		Portfolio %<1 year	100% Max; 40% Min	Portfolio %=<2 year	60% and rated BBB+ and above	Portfolio %=<3 year	35% and rated A and above	Portfolio %=<5 year	25% and rated AA- and above and tier one banks.
Overall Portfolio Term to Maturity - Cash & Fixed Interest											
Portfolio %<1 year	100% Max; 40% Min										
Portfolio %=<2 year	60% and rated BBB+ and above										
Portfolio %=<3 year	35% and rated A and above										
Portfolio %=<5 year	25% and rated AA- and above and tier one banks.										
Interest Rate Risk Management Products (Hedging)	Usage of interest rate risk management products is restricted to bona fide hedging purposes only. Transactions of a speculative nature are not allowed.										
Forward Rate Agreements (Hedging)	<p>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.</p> <p>Positions transacted require the express approval of the Chief Financial Officer.</p>										

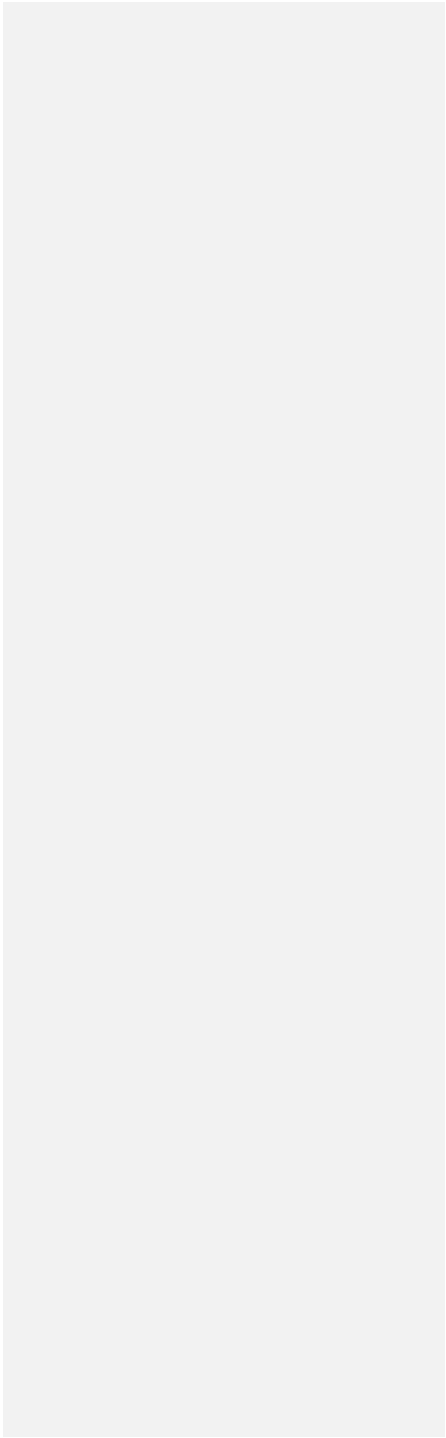
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**Schedule 2 FOREIGN CURRENCY RISK**

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

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

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**Schedule 3 CREDIT RISK**

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

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

**Commented [AW15]:** To be able to take advantage of the most favourable interest rates

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

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

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

**RATINGS COMPARISON TABLE**

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

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

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

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

**Schedule 3 (Cont'd) CREDIT RISK – CONTINUED**

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

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**COUNTRY RISK**

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

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

**Schedule 4 APPROVED INSTRUMENTS**

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

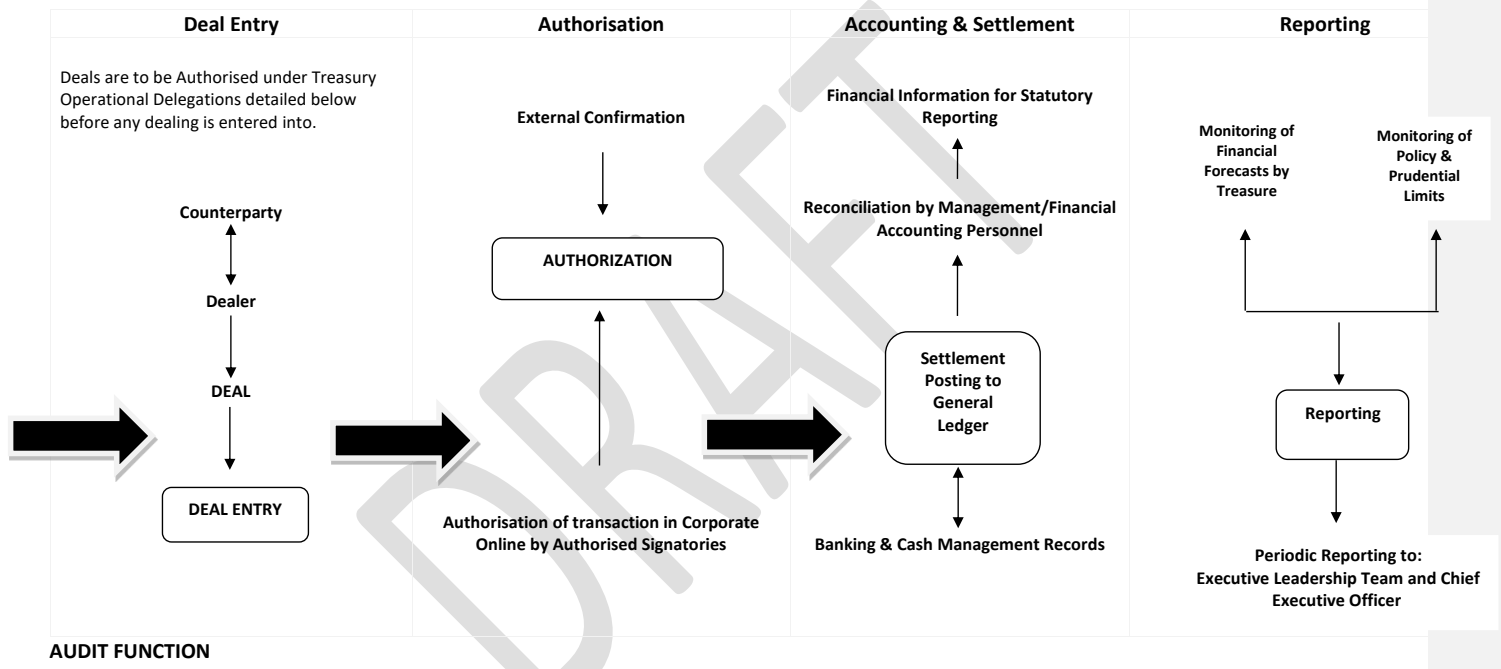
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CATEGORY	COUNTERPARTY	INSTRUMENT
Investments	As per Council approved risk category (refer Schedule 3)	<p>Deposits with an Australian Authorised Deposit Institution, TCV, Foreign Subsidiary Bank and Branch of a Foreign Bank;                      Securities 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.</p> <p>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.</p> <p>The following investments instrument are prohibited:                      securities issued by a municipal corporation or other local governing body                      investment in leveraged or structured bonds                      leveraging (borrowing to invest) of the investment portfolio                      speculation                      derivative based instrument (excluding floating rate notes)</p>

|

		<p>Investment in leveraged or structured bonds is also not permitted.</p> <p>Use of leveraging of the investment portfolio is prohibited</p> <p>Use of the investment portfolio for speculation is prohibited</p>
Risk Management Products	Treasury Corporation of Victoria (TCV) and Banks.	<p>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.</p> <p>Forward rate agreements or over the counter options require the express approval of the Chief Financial Officer</p> <p>Usage of all products is restricted to bona fide hedging purposes only and explicitly excludes structured products,</p>
Loan Products		<p>Overdrafts                      Term Loans</p>

**Schedule 5 TREASURY MANAGEMENT TRANSACTION PROCESSING FRAMEWORK**



**Schedule 6 TREASURY OPERATIONAL DELEGATIONS**

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

**Commented [ML16]:** Should this column be removed seeing as all other reference to a Treasurer has been removed from the rest of the policy? Is this role now permanently removed from the CoM structure? Who has the Treasury IP/expertise now?

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

The City Of Melbourne Authorised Signatories are empowered to:

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

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

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