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1. Statement

Council will utilise derivative transactions to hedge its exposure to foreign exchange risk related to the procurement of goods and services. Recognising the changing nature of contracting, Council considers its current exposure to foreign exchange risk and the need to utilise derivative transactions to be limited.

2. Purpose and Principles

This policy outlines how derivative transactions will be considered and, where appropriate, entered into between Council and QTC for the purpose of minimising potential foreign exchange risks of Council related to procurement contracts.

Council's major foreign exchange risk relates to transacting in Australian dollars for goods and services primarily manufactured or sourced overseas. For fixed price procurement contracts, foreign exchange risk margins are usually embedded into the transaction. Alternatively, suppliers often build in exchange rate variation clauses which means that the Australian dollar payment amount is unknown until the payment date and may be materially higher.

To remove any doubt, under this policy, derivative transactions will not be used to hedge interest rate risk or commodity price risk, engage in simply speculation or to generate general revenues. Council does not consider that it carries any significant commodity price risk or interest rate risk.

Council also has obligations under section 221 of the LGR relating to significant contracting plans; potential derivative transactions are likely to be subject to the broader risk analysis required as part of a relevant significant contracting plan.

3. Strategic Plan Links

This policy aligns with the following iFuture 2021-2026 Corporate Plan theme:

Trusted and Leading Organisation

4. Regulatory Authority

Local Government Act 2009

Local Government Regulation 2012

Statutory Bodies Financial Arrangements Act 1982

Statutory Bodies Financial Arrangements Regulation 2019

The General Approval (Treasurer's approval)

Financial Management Policy
 Credit Risk Policy
 Procurement Policy

5. Human Rights Commitment

Council has considered the human rights protected under the *Human Rights Act 2019 (Qld)* when adopting and/or amending this policy. When applying this policy, Council will act and make decisions in a way that is compatible with human rights and give proper consideration to a human right relevant to the decision in accordance with the Act.

6. Scope

Opportunities to hedge foreign currency risks using derivative transactions will not be limited under this policy but rather be required to consider the underlying risks of exposure and the need to balance these risks against the cost/benefit of undertaking a hedge. Consideration will be given to the term, value and pricing structure of the relevant contract and any cash flow implications of undertaking the hedge.

Recognising the potential for varying levels (from time to time) within Council of technical expertise and specific knowledge related to foreign exchange risk and the use of derivative transactions, any derivative transaction will only be entered into following consultation with and under the guidance of QTC.

Derivative transactions will be conducted through QTC and wherever possible utilising the QTC Supply Chain Payment Solution.

Council will at times conduct derivative transactions in accordance with SBFA Act and the General Approval. If the requirements of the General Approval cannot be met, Council will seek a specific approval under the SBFA Act from Queensland Treasury.

7. Roles and Responsibilities

Council is responsible for considering the associated foreign currency risks and subsequently approving the potential use of derivatives based on the needs of individual procurement activities.

General Manager Corporate Services is responsible for considering and approving any potential derivative transactions based on supporting information and recommendations provided by Finance Branch.

The *Finance Branch* will be responsible for:

- recommending and implementing derivative transactions;
- determining appropriate accounting treatments for all derivative transactions; and
- ensure compliance with all statutory requirements under the SBFA Act and the General Approval.

The *Procurement Branch* will be responsible for:

- referring the individual contracts, which potentially carry foreign exchange risk, to the Finance Branch for analysis; and
- developing contract documentation with the potential for dual currency quotes where relevant.

All Council officers involved in significant procurement activities will need to consider those procurements and their potential to expose Council to foreign exchange risk.

8. Key Stakeholders

- Executive Leadership Team
- Procurement Branch
- Finance Branch; and
- QTC

9. Monitoring and Evaluation

This policy will be reviewed in accordance with Council's four (4) year review cycle or sooner if required.

10. Definitions

Council means Ipswich City Council

A derivative or derivative transaction means a financial contract that derives its value from an underlying asset, commodity, liability or index as defined under the SBFA Act.

A derivative transaction means a transaction Council enters into with QTC to purchase foreign currency or set a foreign currency exchange rate prior to the due date of the relevant transaction.

General Approval means the Treasurer's general approval to enter into derivative transactions (gazetted 3 January 2020)

hedge means a strategy that seeks to limit risk exposures in financial assets.

LGA means the *Local Government Act 2009*.

LGR means the *Local Government Regulation 2012*.

QTC means the Queensland Treasury Corporation

SBFA Act means the *Statutory Bodies Financial Arrangements Act 1982*.

11. Related Documents

Financial Accountability Handbook (Volume 3, Information Sheet 3.18 – Derivative Transactions), Queensland Treasury

12. Policy Owner

The General Manager Corporate Services is the policy owner and the Chief Financial Officer is responsible for authoring and reviewing this policy.