



# **TREASURY RISK MANAGEMENT POLICY**

**Original version approved and adopted 22 October 1993**

**This version adopted and approved on: 12 December 2023**

**by Dunedin City Council**

**Next Review Date: December 2026**

# CONTENTS

<b>1</b>	<b>PURPOSE .....</b>	<b>2</b>
<b>2</b>	<b>TREASURY STRUCTURE – ROLES AND RESPONSIBILITIES .....</b>	<b>4</b>
2.1	DUNEDIN CITY COUNCIL .....	4
2.2	DCHL BOARD .....	4
2.3	DCTL BOARD .....	4
2.4	DCTL Management .....	5
2.5	BREACH REPORTING .....	5
<b>3</b>	<b>OPERATIONAL RISK AND INTERNAL CONTROL POLICY .....</b>	<b>6</b>
3.1	PURPOSE .....	6
3.2	POLICY STATEMENT .....	6
<b>4</b>	<b>INTEREST RATE RISK POLICY .....</b>	<b>7</b>
4.1	PURPOSE .....	7
4.2	MANAGEMENT OF INTEREST RATE RISK .....	7
<b>5</b>	<b>LIQUIDITY AND FUNDING RISK POLICY .....</b>	<b>7</b>
5.1	LIQUIDITY RISK .....	7
5.2	FUNDING RISK .....	8
5.3	FUNDING WITHIN THE DCC GROUP .....	8
<b>6</b>	<b>PERMITTED DEBT AND DERIVATIVE INSTRUMENTS POLICY .....</b>	<b>9</b>
6.1	PURPOSE .....	9
6.2	PERMITTED INSTRUMENTS .....	9
<b>7</b>	<b>CASH MANAGEMENT POLICY .....</b>	<b>11</b>
7.1	DEFINITION OF POLICY PURPOSES .....	11
7.2	CASH ACCOUNTABILITY .....	11
7.3	BANK ACCOUNT STRUCTURE .....	11
7.4	FUNDING DCC ACCOUNTS .....	11
7.5	CASH COLLECTION AND DISBURSEMENT .....	11
<b>8</b>	<b>INVESTMENT MANAGEMENT POLICY .....</b>	<b>12</b>
8.1	PURPOSE .....	12
8.2	RATIONALE .....	12
8.3	POLICY PARAMETERS .....	12
<b>9</b>	<b>PERMITTED INVESTMENT INSTRUMENTS POLICY .....</b>	<b>13</b>
9.1	PURPOSE .....	13
9.2	PERMITTED INSTRUMENTS .....	13
9.3	LOCAL GOVERNMENT FUNDING AGENCY .....	13
<b>10</b>	<b>CREDIT RISK POLICY .....</b>	<b>14</b>
10.1	ESTABLISHING EXTERNAL CREDIT LIMITS .....	14
10.2	MAXIMUM COUNTERPARTY CREDIT LIMIT .....	14
10.3	INDIVIDUAL COUNTERPARTY CREDIT LIMITS .....	14
10.4	EXTERNAL CREDIT LIMIT OPERATION .....	14
10.5	EXTERNAL COUNTERPARTY CREDIT LIMITS .....	14
10.6	INTERNAL CREDIT RISKS .....	15
<b>11</b>	<b>FOREIGN EXCHANGE RISK POLICY .....</b>	<b>16</b>
11.1	PERMITTED INSTRUMENTS .....	16
11.2	HEDGING PARAMETERS .....	16
11.3	HEDGING AT SUBSIDIARY LEVEL .....	16
<b>12</b>	<b>COMMODITY RISK POLICY .....</b>	<b>17</b>
12.1	RATIONALE .....	17
<b>13</b>	<b>REPORTING .....</b>	<b>18</b>
13.1	MANAGEMENT REPORTS .....	18
13.2	REPORTING TO DCTL BOARD .....	18
<b>14</b>	<b>PERFORMANCE MEASUREMENT .....</b>	<b>19</b>
14.1	DEFINITION FOR POLICY PURPOSES .....	19
14.2	ESTABLISHING PERFORMANCE INDICATORS .....	19
14.3	PERFORMANCE MEASUREMENT REPORTING .....	19

## 1 PURPOSE

This Policy document is the Policy document for the Dunedin City Council ("the DCC"). It has been prepared by Dunedin City Treasury Limited ("DCTL") and before being submitted to the DCC for approval it has been reviewed and approved by the DCTL Board and the Board of Dunedin City Holdings Limited ("DCHL"). It is for the use of all subsidiaries owned by DCC and is the basis for the risk management parameters within the Council's Liability Management and Investment policies that are approved from time to time by the Council. The entities that this Policy document applies to are collectively called the Dunedin City Council Group ("DCC Group").

For the purposes of this Policy and as at the date of this Policy, the DCC Group consists of the following entities:

- Dunedin City Council
- Dunedin City Holdings Limited
- Dunedin City Treasury Limited
- Dunedin Stadium Property Limited
- Dunedin Venues Management Limited
- City Forests Limited
- Aurora Energy Limited
- Delta Utility Services Limited
- Dunedin Railways Limited

This Policy is the sole Treasury Risk Management Policy within the Group.

The purpose of the Treasury Risk Management Policy is to set out a prudential framework for the identification, quantification, assessment, and management of all financial market risks associated with the Borrowing, Investment, Foreign Exchange and Commodity exposures faced by the DCC Group.

A sound treasury management control framework will assist the DCC Group in achieving its broader business objectives by:

- Managing the cost of debt and treasury investment returns within an appropriate risk management framework;
- Maximising the net worth of its assets; and

The Policy contains specific objectives, policies and reporting requirements for the management of:

- Operational Risk
- Liquidity and Funding Risk
- Interest Rate Risk
- Credit Risk
- Investment Risk
- Foreign Exchange and Commodity Risk

Treasury risk management and related operational risk management are carried out internally by qualified and experienced personnel acting under specific delegations, which ensure appropriate segregation of duties, and act within a best practice code of conduct; and which utilise systems of an appropriate standard incorporating effective reporting.

The DCC has set in place a financial structure to allow effective financial management of its activities on a sound commercial basis. This structure consists of several companies which are independently managed through Boards of Directors. Notwithstanding this corporate structure, the benefits of a centralised approach to treasury management have been recognised. This Policy provides a framework for treasury management by the DCC Group.

The DCC by its political nature and the ongoing requirement to deliver appropriate services to its ratepayers and to be the custodian of assets owned by, and for the benefit, of the ratepayers of Dunedin City, has a conservative approach to risk management.

This Policy document recognises these principles.

This Treasury Risk Management Policy does not apply to the DCC's Waipori Fund. The Waipori Fund is governed by a separate Statement of Investment Policies and Objectives (SIPO).

## 2 TREASURY STRUCTURE – ROLES AND RESPONSIBILITIES

The roles and responsibilities of the key parties involved in the treasury management process are detailed below.

Currently the board of DCTL and DCHL are composed of the same Board members.

### 2.1 DUNEDIN CITY COUNCIL

The Council has responsibility for:

- Overall performance of the DCC Group;
- Approving the DCC Treasury Risk Management Policy, on the recommendation of the DCHL Board;
- Approving Council Liability Management and Investment Policies.;
- Approving annual Council borrowing requirements through the Annual Plan;
- Delegating authority to DCTL to undertake Treasury activities on behalf of the DCC;
- Overseeing the DCC Group Treasury activities through regular DCHL reporting and compliance.

•

### 2.2 DCHL BOARD

The DCHL Board has responsibility for:

- Overseeing the operations of all subsidiaries under its supervision including treasury risk management activity;
- Recommending that Council approve the DCC Treasury Risk Management Policy, on the recommendation of the DCTL Board;
- Monitoring the performance of DCTL against this Policy by DCTL Board treasury reporting;

### 2.3 DCTL BOARD

**The DCTL Board has responsibility for:**

- Assisting in the achievement of overall DCC objectives by promoting sound treasury management practices throughout the DCC Group;
- Overseeing the operation and performance of DCTL ensuring that treasury activities within the DCC Group are conducted within agreed risk management parameters;
- Recommending changes to the Treasury Risk Management Policy to the DCHL Board for submission to the Council for approval;
- Monitoring the performance of the treasury operation through the review of regular reports;
- Undertaking an external review every three years or in line with the Long Term Plan cycle and recommending any changes to the DCHL Board for approval and subsequent submission to the Council for approval;
- Overseeing implementation of internal or external audit recommendations;
- Reviewing treasury activity through regular treasury reporting;
- Approving transactions, short term facilities or decisions outside the delegated authority of the Treasurer;
- Reviewing performance against benchmarks;
- Reviewing and recommending instruments and techniques to manage risk currently outside the Treasury Risk Management Policy, to the DCHL Board and Council for approval.
- Confirming any facility agreement between subsidiaries and DCTL including pricing levels and any adjustments to base pricing levels attributable to DCTL's actual performance on a cost of funds basis.

## **2.4 DCTL MANAGEMENT**

### **DCTL management have responsibility for:**

- Ensuring the DCC Group has necessary funding to meet its obligations, within the boundaries specified in debenture documentation and this Policy;
- The management of all treasury risks within the DCC Group, excluding foreign exchange risk in those circumstances in which the DCHL Board has agreed this will be managed at subsidiary level;
- Managing external financial market relationships;
- Managing internal relationships with DCTL clients;
- Notifying the DCTL Board and DCC Chief Financial Officer of any breaches of this Policy, including a plan for remediation, as appropriate;
- Overseeing the operation of treasury information systems;
- Developing and documenting appropriate operational procedures and ensuring an appropriate system of internal control is in place;
- Overseeing implementation of internal or external audit recommendations on treasury related issues after consultation with the DCTL Board;
- Managing the DCC and DCTL annual credit rating review process;
- Reporting to the DCTL board the overall activities and results of DCTL in accordance with Section 13;
- Advising the DCC Group entities on foreign exchange risk management policies, financial products and techniques as requested;

## **2.5 BREACH REPORTING**

Any breaches of the Treasury Risk Management Policy are to be advised in the first instance to the DCTL Board and Chief Financial Officer of DCC by the Treasurer within 1 business day of the breach being detected. This notification will outline the nature of the breach, its causes, and recommendations to rectify the breach.

The DCHL Board, Audit and Risk Subcommittee of Council and Council will be notified of all breaches (whether rectified or not) no later than their next scheduled meetings.

### **3 OPERATIONAL RISK AND INTERNAL CONTROL POLICY**

#### **3.1 PURPOSE**

The Operational Risk Policy addresses the risk incurred by an organisation's internal activities. Operational risk is the risk of loss resulting from inadequate or failed internal process, people and systems, or from external events.

#### **3.2 POLICY STATEMENT**

DCTL manages this exposure by:

- Ensuring the Treasury function is operating in a controlled manner and that adequate internal control procedures are in place for measurement and management of the various functions undertaken by the Treasury function;
- Ensuring the Treasury function has adequate systems in place for the management of financial risk;
- Ensuring Treasury function employees are suitably qualified and trained to undertake and perform financial risk management activities; and

A formal 'Treasury Procedures Manual' of written procedures/protocols for the treasury management function must be maintained detailing each stage of each procedure for the processing and checking of treasury transactions. The Manual also details paper-flow, files, registers, internal controls and accounting treatment of all transactions. It also includes guidelines and precedent documents.

The procedures manual is a live document and requires updating with any significant change to procedures that arise.

All DCC Group entities are responsible for implementing and reviewing their own appropriate operational and internal controls.

Delegated authorities to management for initiating financial transactions, appropriate dealing limits, and authorisation and settlement conditions are to be confirmed by the DCTL Board.

## 4 INTEREST RATE RISK POLICY

### 4.1 PURPOSE

Interest rate risk management has the objective of managing the Council's interest rate exposures in order to:

- Give a sufficient level of certainty to the Council's funding costs while, at the same time, allowing the Council to participate if interest rates move favourably.
- Control variations in interest expense for the debt portfolio from year to year, taking into consideration relevant budgetary assumptions.

### 4.2 MANAGEMENT OF INTEREST RATE RISK

Interest rate risk is managed by implementing the following:

Annual forecasts of long term debt are to be provided to DCTL by each member of the DCC Group.

It is the responsibility of each DCC Group entity to advise DCTL of any change to long term debt forecasts as and when any change occurs throughout the year.

DCTL maintains an approved debt interest rate reset profile within the profile detailed below. Fixed rate debt is defined as having a re-pricing or rollover date of more than 12 months into the future.

The hedging limits apply to forecast debt as identified on an annual basis.

Period (1)	Fixed Rate Maturity Profile Limit		
	Minimum Cover	Mid Point Cover	Maximum Cover
0-2 years	40%	70%	100%
3-5 years	20%	50%	80%
6-10 years	0%	30%	60%
11-15 years	0%	17%	35% <sup>1</sup>

(1) Interest rate hedging can extend beyond 10 years to a maximum of 15 years with DCTL Board approval.

Specified permitted debt instruments are detailed in section 6.

All interest rate hedges are entered into by DCTL with external counterparties.

Other DCC Group entities are precluded from entering into any financial transactions with external counterparties.

The Management of Interest Rate Risk excludes the assets of the Waipori Fund.

## 5 LIQUIDITY AND FUNDING RISK POLICY

### 5.1 LIQUIDITY RISK

Liquidity and funding risk management is associated with ensuring the availability of sufficient funds to meet the DCC Group's financial commitments in a timely manner. It is also associated with planning for unforeseen events which may curtail cash flows and cause pressure on liquidity. These risks include:

- An unplanned reduction in revenue thus reducing cash receipts;
- Unexpected business disruption;
- Unplanned capital or operating expenditures;
- External market liquidity; To manage liquidity risk the Group must maintain committed funding facilities with New Zealand Registered Banks or from the capital markets or using funds on deposit with a New Zealand Registered Bank or with authorised fixed interest investments at a minimum level of 10% of the projected peak debt total over the ensuing



12 month period.

- DCTL will use committed funding lines to meet its liquidity requirements. In addition, DCTL will ensure that facilities are of sufficient size to also cover forecasted incremental term debt issuance.

## **5.2 FUNDING RISK**

Funding risk is the risk to the DCC Group of not being able to re-finance or raise new debt at a future time at competitive rates, fees and borrowing margins, and also terms.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any unforeseen events occur, DCTL has limited exposure to facilities rolling over at that inopportune time.

The DCC Group aims to manage this risk by having its funding facilities spread over a reasonable period of years and from a range of funding sources.

To spread this risk, it is prudent to have the total debt spread so that there is a maximum amount maturing in any 12-month period.

The policy control in relation to funding risk is:

- No more than \$450 million can mature on a rolling 12 month basis,
- and to target at least 20% of total debt with a maturity greater than five years (but no more than 12 years without DCC approval). The aim is to have a good spread of maturities across a multiyear horizon.

## **5.3 FUNDING WITHIN THE DCC GROUP**

DCTL provides all funding to DCC Group entities. DCTL is the sole borrowing entity and it manages interest rate risk for the Group.

All funding provided by DCTL on a fixed or floating rate basis. The interest rate charged to the DCC group entity will be calculated by DCTL after considering the actual expected cost of funds of DCTL.

The actual interest expense recognised for each DCC Group entity will be based on DCTL's actual cost of funds plus a margin to reflect the costs of operating DCTL.

Funding for specific projects within the Group may be considered on a case-by-case basis.

Because all interest rate risk management is at the DCTL level interest rate expense will not be a KPI for any DCC Group entity other than DCTL. However, KPI's for the DCC Group entities around accuracy of cash flow projections, debt projections etc are expected to be implemented.

## 6 PERMITTED DEBT AND DERIVATIVE INSTRUMENTS POLICY

### 6.1 PURPOSE

The Permitted Debt Instruments Policy describes the instruments which can be transacted, having regard to any legislative requirements and the potential risks that may need to be hedged and the risk inherent in the instruments.

### 6.2 PERMITTED INSTRUMENTS

This list of permitted instruments for debt management is:

#### Borrowing Instruments

- Bank overdraft
- Committed bank facilities
- Commercial Paper issuance
- Fixed Rate Bonds, Floating Rate Notes from the domestic debt capital markets

#### LGFA Funding

DCTL may borrow from the LGFA and, in connection with that borrowing, may enter into any agreement to the extent considered appropriate including:

- Contribute a portion of borrowing back to the LGFA as an equity contribution to the LGFA e.g. borrower notes;
- DCC may provide a guarantee over indebtedness to the LGFA;
- DCC may accept a transfer from DCTL of Borrower Notes issued by the LGFA;
- DCC may contribute additional equity (or subordinated debt) to the LGFA if required
- DCC may secure its borrowings from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over DCC's rates and revenue (using a Debenture Trust Deed), or
- DCC may subscribe to the shares and uncalled capital of the LGFA

In connection with any borrowing from the LGFA, the Council and or the DCC Group must also comply with all relevant financial covenants/ratios of the LGFA as follows:

Financial Covenant	Foundation Policy Covenant
Net Debt / Total Revenue	<280%
Net Interest / Total Revenue	<20%
Net Interest / Annual Rates Income	<30%
Liquidity	>110%

LGFA Alternative Net Debt to Total Revenue Foundation Policy Covenant for the financial years to 2025:

Financial Year ending	Net Debt/ Total Revenue
30 June 2025	<285%

#### Derivative Instruments

- Forward interest rate agreements (FRA's)
- Interest rate swaps
- Interest rate options (purchase of caps or collars only)
- Options on interest rate swaps

Any combination of these instruments is permitted.

Derivative instruments permitted under this Policy are used for hedging purposes to position the portfolio for interest rate moves within the constraints contained in the Interest Rate Risk Policy. The following specific policy constraints are required:

- All hedging transactions must relate to an underlying debt exposure and no speculative transactions can be undertaken;
- Where possible any instruments used should be designated as effective hedges for accounting purposes and should be matched to physical debt in DCTL's debt portfolio. If this is not possible the potential impact must be advised to the Boards of DCTL and DCHL and the Council before the transaction is undertaken; and
- Interest rate options are not permitted to be sold except to cancel a previously purchased option where hedging is no longer required or where the option is combined with a purchased option of matching maturity and principal in the course of executing an interest rate collar strategy.

## **7 CASH MANAGEMENT POLICY**

### **7.1 DEFINITION OF POLICY PURPOSES**

Cash management is concerned with ensuring the best use of available cash resources. This requires organising the collection and disbursement systems in such a way as to maximise the investment and to limit the borrowing of funds. Accurate and timely forecasting of cash movements by the DCC Group is essential.

Cash management practices are to focus on cost effective collection of funds, achieving minimal float, retention of funds for as long as possible and controlled disbursement.

### **7.2 CASH ACCOUNTABILITY**

DCTL is responsible and accountable for the investment of surplus cash and financing of short-term borrowings. The Finance Manager or equivalent within each DCC Group entity co-ordinates procedures that support the achievement of the overall DCC Group cash management objective and advises the Assistant Treasurer as to cash requirements.

Responsibility for operating a cash efficient operation ultimately rests with the individual Group entities, which must have systems in place to ensure the efficient management of their cash flows and to be able to work proactively with DCTL to achieve this. Responsibility for developing controls and procedures is that of the individual entity's Finance Manager (or equivalent) with such controls and procedures reviewed by DCTL to ensure practical application can be achieved.

### **7.3 BANK ACCOUNT STRUCTURE**

The location and counterparties of Council's accounts form the bank account structure. The DCC limits the number of accounts to the minimum necessary to service financial requirements. All DCC Group entities must have their transactional banking with the same financial institution.

### **7.4 FUNDING DCC ACCOUNTS**

All accounts are funded directly by DCTL. This funding will be made in accordance with agreed funding limits and agreements. The DCC Group entities must endeavour to maintain an adequate balance in their bank accounts. Surplus balances should be monitored closely, and excess funds used to reduce debt enabling the efficient use of funds within the Group.

### **7.5 CASH COLLECTION AND DISBURSEMENT**

The bulk of revenues are received on cyclical or regular intervals and are typically divorced from expenditure which is incurred on an ongoing basis. This cash flow pattern emphasises the importance of accurate cash flow forecasts and efficient cash collection and disbursement mechanisms.

## **8 INVESTMENT MANAGEMENT POLICY**

### **8.1 PURPOSE**

The Investment Management Policy establishes appropriate benchmarks (for performance measurement) and prudent limits for the management of surplus funds. The investment management objective is to optimise returns subject to maintaining an appropriate risk profile.

### **8.2 RATIONALE**

The objective of investment management is to achieve an appropriate return consistent with the risk assumed. The DCC Group has a number of cash and fixed interest investments in place currently that provide income and also a source of liquidity. The aim is to keep the duration of cash investments sufficiently short as to enable optimal cash flow management. Cash investments will by nature become a function of liquidity and cash flow management and DCTL will endeavour to minimise outstanding borrowings by applying material cash surpluses to debt reduction. At its discretion DCTL can sell bonds held before maturity subject to market conditions, term to maturity, actual interest income received against average cost of debt for DCTL and potential capital gains. Unless there are credit concerns about any holding DCTL should not consider sales at a capital loss, rather hold to maturity and thus receive the whole face value back. Any such sales must be approved by the DCTL Board.

### **8.3 POLICY PARAMETERS**

The following controls apply:

- All investments are to be in accordance with the Permitted Investment Instruments Policy (Section 9) and the Credit Risk Policy (Section 10);
- Investments in risk-leveraged derivative instruments are not permitted; and
- Investment performance is to be benchmarked against an appropriate index as agreed between the Treasurer and the DCTL Board.

## **9 PERMITTED INVESTMENT INSTRUMENTS POLICY**

### **9.1 PURPOSE**

The Permitted Investment Instruments Policy describes the investment related instruments which can be transacted having regard to any legislative requirements and the potential risks faced by the DCC Group and inherent in the instruments.

### **9.2 PERMITTED INSTRUMENTS**

The list of permitted instruments for investment are:

#### **Investment Instruments**

- Bank deposits (maximum 365 days)
- Commercial Paper (maximum 365 days)
- Fixed Rate Bonds, Floating Rate Notes from the domestic debt capital markets other than residual bond holdings at the time of this Policy's approval.
- LGFA equity

### **9.3 LOCAL GOVERNMENT FUNDING AGENCY**

DCC and DCTL may invest in shares and other financial instruments of the LGFA and may borrow to fund that investment. The objective in making any such investment will be to:

- Obtain a return on the investment; and
- Ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for the Group.

Because of this dual objective, DCC and DCTL may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA.

## 10 CREDIT RISK POLICY

The risk of financial loss that could accrue to the DCTL from the non-settlement of financial transactions requires a separate credit limit to be established for all external counterparties.

No transaction will be entered into with any outside counterparty for whom an approved credit limit has not been established within the parameters detailed in this Policy.

### 10.1 ESTABLISHING EXTERNAL CREDIT LIMITS

### 10.2 MAXIMUM COUNTERPARTY CREDIT LIMIT

The maximum credit limit which is to be applied to any outside counterparty reflects the maximum exposure in total likely to be incurred at any one time, the maximum loss which could be sustained by DCTL without affecting viability and the benefits of risk reduction through diversification.

### 10.3 INDIVIDUAL COUNTERPARTY CREDIT LIMITS

- **Rated Organisations**

Individual credit limits will be determined by reference to credit rating published by internationally recognised rating agencies. Principal use will be made of S&P Global Ratings or the Moody's Investor Services or Fitch Ratings equivalents.

Limits will be assigned on the basis of their relative standing in respect of the maximum available rating and the maximum counterparty credit limit. Formulas and limits are set out in Section 10.5. All limits are to be approved by the DCTL Board.

- **Unrated Organisations**

No limit will be established for unrated organisations without Council approval. The Treasurer will provide a formal request in support of any application including the cost benefit of contemplating such a relationship.

### 10.4 EXTERNAL CREDIT LIMIT OPERATION

DCTL will ensure that information is available on total exposure to counterparties and that proposed transactions can be assessed against available limits.

Counterparties exceeding limits must be advised in the first instance to the DCTL Board and General Manager Finance of DCC by the Treasurer within 1 business day of the breach being detected. This notification will outline the nature of the breach, its causes, and recommendations to rectify the breach.

The Treasurer may recommend with immediate effect the termination or reduction in the limit of a counterparty at any time.

### 10.5 EXTERNAL COUNTERPARTY CREDIT LIMITS

The following schedule confirms the approved limits and includes the Waipori Fund:

<b>Instrument</b>	<b>Long Term S&amp;P Rating (or Moody's or Fitch equivalent)</b>	<b>Maximum exposure to any one counterparty with this rating (\$ million)</b>
All Exposures	AAA	\$150
All Exposures	AA to AA+	\$100
All Exposures	AA-	\$60
All Exposures	A to A+	\$50
Residual Investments	BBB to A-	\$10

Exposures are to be calculated as follows:

Cash/Bonds 100% of face value including accrued interest

**Other Exposures**

Potential Credit Exposure Calculations (PCE):

FX forwards/options  $MTM + FV * \text{remaining tenor}(y) * 10\%$  Interest Rate Swaps

$MTM + FV * \text{remaining tenor}(y) * 1.00\%$

Interest Rate Options  $MTM + FV * \text{remaining tenor}(y) * 1.00\%$

(Where Mark to Market "MTM" is positive if the position is in the money for DCTL and negative if it is out of the money for DCTL).

For each instrument, if  $MTM + PCE$  is negative, a nil value is assigned. If the total exposure for any one Financial Institution is net out of the money for DCTL, then a nil value is used when calculating total exposure for the relevant credit band.

DCTL will report monthly on actual credit usage by all of the DCC Group with all external counterparties against the approved limits.

## **10.6 INTERNAL CREDIT RISKS**

The credit risk is managed as follows:

No transaction is to be undertaken unless it is formally documented as a facility agreement which includes the facility limit and is approved by the DCTL Board and the relevant DCC entity Board.

No security arrangements are required for all entities that are ultimately 100% owned by the DCC.



## **11 FOREIGN EXCHANGE RISK POLICY**

The Foreign Exchange Risk Policy establishes guidelines under which foreign exchange risk management occurs.

The management of Foreign Exchange Risk excludes the assets of the Waipori Fund.

The objective of the Policy is to mitigate the potential for financial loss arising through unfavourable movements in exchange rates.

### **11.1 PERMITTED INSTRUMENTS**

In addition to foreign currency spot transactions the DCC Group can enter into the following instruments to manage foreign exchange risk by undertaking:

- Forward foreign exchange transactions; and
- Foreign exchange options.

The maximum contract term and amount for any hedging instrument is the same as the underlying contract exposure. Hedges are undertaken to match the expected payment or receipt of committed and forecast exposures.

### **11.2 HEDGING PARAMETERS**

- The various DCC Group entities will monitor their net foreign exchange position in all currencies. Any foreign currency exposure greater than NZ\$100,000 by individual contract, is deemed significant and subject to this Policy, needs to be notified to DCTL within one business day of the commitment being entered into;
- Net foreign currency exposures in excess of NZ\$100,000 are to be fully hedged within one business day of the exposure being notified to DCTL. Exposure is defined to exist at the firm commitment of an approved sale or purchase in a foreign currency.

### **11.3 HEDGING AT SUBSIDIARY LEVEL**

An individual DCC Group entity can manage its own foreign exchange exposures subject to approval from the DCTL Board and subject to a formal foreign exchange risk management policy being developed by the entity, reviewed by DCTL and approved by the entity's Board and the DCTL Board.

However, this would only be expected to occur if the entity had ongoing foreign exchange transactional exposures linked to export receipts or import payments that are a core part of the underlying business, e.g. the foreign exchange exposures are ongoing and directly related to - day-to-day business activities.

In these circumstances hedging transactions with external counterparties will be executed by DCTL upon instruction from the entity. All such deals will be in the name of the hedging entity to avoid the requirement for internal transactions to be completed.

City Forests has its own Foreign Exchange Risk Management Policy as approved by the Boards of City Forests and DCTL. All deals are done through DCTL.

## **12 COMMODITY RISK POLICY**

The Commodity Risk Policy establishes guidelines under which commodity price risk management occurs.

### **12.1 RATIONALE**

The objective of the Policy is to mitigate the potential for financial loss arising through unfavourable movements in commodity prices. This commodity transaction risk can result in the DCC's cash flows being adversely affected by movements in commodity prices that will change the New Zealand dollar (NZD) value of commodity payables or receipts.

If material exposures exist which are ongoing (defined as an underlying exposure in excess of NZ\$500,000 equivalent per annum), DCTL will work with the entity to develop an appropriate policy to manage that risk with the policy being submitted to the DCTL Board for approval.

The DCC and City Forests have their own Carbon Risk Management Policies. The City forests Carbon Risk Management Policy has been approved by the Boards of City Forests and DCTL.

For clarity the trading in physical forest assets are not considered a commodity.

Any one-off commodity exposures (defined as in excess of NZ\$50,000) will be reviewed by DCTL which will recommend a potential hedging strategy to the Board of the DCC Group entity incurring the exposure. Any such hedge must be approved by the DCTL Board.

## **13 REPORTING**

### **13.1 MANAGEMENT REPORTS**

Management reports for the DCTL Board are produced on a monthly basis providing the following categories of information:

- Approved facility limits provided to DCC entities, and current utilisation.
- External counterparty limit utilisation for the DCC Group.
- Measurement of interest rate hedging, maturity profile and liquidity levels against Treasury Risk Management Policy parameters.
- Details of DCC Group FX hedging against policy parameters.
- Quarterly reporting that measures the actual interest cost against interest expense in the current Annual Plan and also current LTP.

### **13.2 REPORTING TO DCTL BOARD**

The DCTL Board will be provided with a monthly report of Treasury activity. The report will include details of any exception to the Treasury Risk Management Policy and information supporting any decisions required of DCTL, DCHL or Council where authority has not been delegated to management.

## **14 PERFORMANCE MEASUREMENT**

### **14.1 DEFINITION FOR POLICY PURPOSES**

Performance measurement is the analysis of DCTL activity in order to compare actual achievement with the objectives established for its operation. Without such a systematic and objective approach no judgements can be formulated as to achievement, as to whether the DCC is receiving value from DCTL and as to what improvements have been made.

### **14.2 ESTABLISHING PERFORMANCE INDICATORS**

Performance indicators are established annually in the Statement of Intent. Performance indicators for the treasury functions must:

- be consistent with the objectives established for treasury management and be recast as changes occur in short or long term objectives;
- have a time horizon chosen for measurement purposes which is relevant; and the targets must be achievable; and
- have targets agreed by all involved but at a minimum will compare average all up interest rate (% terms) against current Annual Plan budget and current LTP budget.
- A separate measurement of the performance of the Interest Rate Risk Policy itself (i.e. the success and continued appropriateness of the risk control limits stipulated in the Policy and the performance of working within the Policy limits is desirable. Measuring actual results (e.g. average funding cost should be measured and reported against a Board approved market benchmark.

### **14.3 PERFORMANCE MEASUREMENT REPORTING**

A quarterly report to the DCHL and DCTL Boards will update performance against agreed key indicators.