

**MINUTE EXTRACT FROM THE NON-PUBLIC MINUTES OF THE COUNCIL MEETING HELD ON TUESDAY
2 OCTOBER 2018**

C5 ANNUAL REVIEW - DCC TREASURY RISK MANAGEMENT POLICY

A report from Finance summarised the Annual Review of the Dunedin City Council, Treasury Risk Management Policy (Policy) and provided recommended changes to the Policy following review by the Board of Dunedin City Treasury Limited.

Dunedin City Holdings Ltd Director (Keith Cooper) and Treasury Manager (Richard Davey) spoke to the report and responded to questions from Councillors.

Moved (Cr Mike Lord/Cr David Benson-Pope):

That the Council:

- a) **Approves** (section 3.2) Policy Statement – changes to wording relating to the location of the Procedures Manual on the DCTL network. Also, additional wording stating the document is a “Live” document.
- b) **Approves** (section 4.3) Management of Interest Rate Risk – changes to wording and additional wording that states “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”.
- c) **Approves** (section 4.5) Measurement of Interest Rate Risk – A requirement for interest rate risk to be measured on a quarterly basis and reported to the DCTL Board using cash flow at risk analysis has been added.
- d) **Approves** (section 5.2) Measurement of Liquidity Risk – Definitions of Short- term and Long-term cash flows have been added. A requirement for DCTL to maintain a formal Liquidity Buffer has also been added.
- e) **Approves** (section 7.) Cash Management Policy – Removal of Sections 7.5.2 Cash Collection and 7.5.3 Cash Disbursement due to the obvious nature of the contents of these sections.
- f) **Approves** (section 10.5) External Counterparty Credit Limits – The Maximum exposure to any one counterparty with AA- rating has been increased from \$50.0 million to \$60.0 million. The Maximum exposure to a counterparty with a A to A+ rating has increased from \$30.0 million to \$50.0 million.
- g) **Approves** (section 12.1) Commodity Risk Policy, Rationale – Removal of wording which implies that material exposures to commodities within the Group do not exist – material exposures do exist at the current time.
- h) **Notes (Appendix 1)** Delegations of Authority – Change of wording to remove “Weekly” Dealing Limits which have no relevance.

Motion carried (CNL/2018/120)

ANNUAL REVIEW - DCC TREASURY RISK MANAGEMENT POLICY

Department: Finance

REASONS FOR CONFIDENTIALITY

Grounds: S48(1)(a) - The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

Reason: S7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.

EXECUTIVE SUMMARY

- 1 This report summarises the Annual Review of the Dunedin City Council, Treasury Risk Management Policy (Policy) and provides recommended changes to the Policy following review by the Board of Dunedin City Treasury Limited.
- 2 The recommended changes were made following an external review completed by KPMG.
- 3 The changes were reviewed by the Audit and Risk Subcommittee on 31 August 2018 with their recommendation being that Council approves the changes noted in the report.

RECOMMENDATIONS

That Council:

- a) **Approves** (section 3.2) Policy Statement – changes to wording relating to the location of the Procedures Manual on the DCTL network. Also, additional wording stating the document is a “Live” document.
- b) **Approves** (section 4.3) Management of Interest Rate Risk – changes to wording and additional wording that states “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”.
- c) **Approves** (section 4.5) Measurement of Interest Rate Risk – A requirement for interest rate risk to be measured on a quarterly basis and reported to the DCTL Board using cash flow at risk analysis has been added.
- d) **Approves** (section 5.2) Measurement of Liquidity Risk – Definitions of Short-term and Long-term cash flows have been added. A requirement for DCTL to maintain a formal Liquidity Buffer has also been added.
- e) **Approves** (section 7.) Cash Management Policy – Removal of Sections 7.5.2 Cash Collection and 7.5.3 Cash Disbursement due to the obvious nature of the contents of these sections.
- f) **Approves** (section 10.5) External Counterparty Credit Limits – The Maximum exposure to any one counterparty with AA- rating has been increased from \$50.0 million to \$60.0 million. The Maximum exposure to a counterparty with a A to A+ rating has increased from \$30.0 million to \$50.0 million.
- g) **Approves** (section 12.1) Commodity Risk Policy, Rationale – Removal of wording which implies that material exposures to commodities within the Group do not exist – material exposures do exist at the current time.
- h) **Notes (Appendix 1)** Delegations of Authority – Change of wording to remove “Weekly” Dealing Limits which have no relevance.

BACKGROUND

- 4 The Policy version was initially approved by Council on 15 December 2014. The Policy states the DCTL Board must conduct a review of the Policy annually and an external review once every three years. The most recent Annual Review of the Policy was completed on 29 August 2017.
- 5 KPMG is the entity that DCTL uses to conduct its Internal Audit program and they conducted the external review of the Policy for 2018.

DISCUSSION

- 6 The recommended changes to section 4.3, Management of Interest Rate Risk, will assist DCTL to receive more timely changes to debt forecasts from the Group. This will assist decisions relating to interest rate risk management.
- 7 The recommended changes to Section 4.5, Measurement of Interest Rate Risk, will assist quantifying the impact on cash flows relating to interest expense brought about by

changes in underlying interest rates. This will assist future interest rate hedging decisions to be made by DCTL ensuring the Group is adequately protected against interest rate risk.

- 8 The recommended change to Section 5.2, Measurement of Liquidity Risk, adds the requirement for DCTL to maintain an adequate Liquidity Buffer which requires DCTL to have sufficient committed bank facilities to cover all debt maturities in the two-month period from reporting date. This will assist in reducing refinancing risk if there is an unforeseen event that prohibits refinancing debt maturities in any way.
- 9 Sections 7.5.2 and 7.5.3 have been removed as they provided very little value in relation to the management of the Group's financial market risks.
- 10 The increase in the External Counterparty Credit Limits recommended in section 10.5, is recommended to enable sufficient further capacity for DCTL to transact additional interest rate hedges with existing bank counterparties.
- 11 The recommended change to Section 12.1, Commodity Risk Policy, is to remove wording which indicates that material commodity exposures within the Group do not exist given they do exist currently.
- 12 The changes to Appendix 1, Delegations of Authority, are to remove cumulative dealing limits where there was previously a maximum permitted volume of transactions over a one-week period. When DCTL enters into a transaction the transaction occurs at a point in time and the cumulative volume of transactions over a one-week period is not relevant.

OPTIONS

- 13 Not applicable.

NEXT STEPS

- 14 If the Recommendations are approved by Council the Policy will be updated to reflect the approved changes.

Signatories

Author:	Richard Davey - Treasury Manager
Authoriser:	Dave Tombs - General Manager Finance and Commercial

Attachments

	Title	Page
A	Revised Treasury Risk Management Policy (with track changes)	
B	Revised Treasury Risk Management Policy	

SUMMARY OF CONSIDERATIONS

Fit with purpose of Local Government

The Treasury Risk Management Policy enables democratic local decision-making and action by, and on behalf of communities, by managing the risks and exposures that the DCC Group have for procuring external funding.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	☐	☐	☒
Economic Development Strategy	☒	☐	☐
Environment Strategy	☐	☐	☒
Arts and Culture Strategy	☐	☐	☒
3 Waters Strategy	☐	☐	☒
Spatial Plan	☐	☐	☒
Integrated Transport Strategy	☐	☐	☒
Parks and Recreation Strategy	☐	☐	☒
Other strategic projects/policies/plans	☐	☐	☒

The Policy is key in forming the basis of how the DCC Group is funded and how Treasury risks and exposures are managed.

Māori Impact Statement

There are no known impacts for tangata whenua.

Sustainability

There are no implications for sustainability.

LTP / Annual Plan / Financial Strategy / Infrastructure Strategy

There are no implications.

Financial considerations

There are no financial implications.

Significance

Not applicable – reporting only.

Engagement – external

There has been no external engagement.

Engagement - internal

There are no financial implications.

Risks: Legal / Health and Safety etc.

There are no known risks.

Conflict of Interest

There are no known conflicts of interest.

Community Boards

There are no implications for Community Boards.