

## County of Essex Policy and Procedures Manual

### Commodity Price Hedging Policy Manual

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<b>Office of Responsibility:</b>	Financial Services
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<b>Replaces Policy:</b>	06-001

#### 1.0 Introduction

The Corporation of the County of Essex recognizes the need for practical financial management in addressing commodity price fluctuations, which can significantly impact the County's operational costs. This policy aligns with the strategic financial objectives of the County, ensuring that commodity price hedging agreements are used effectively and in compliance with applicable legislation, including the Municipal Act, 2001 sections 5,6,7(1) and Ontario Regulation 653/05.

#### 2.0 Scope

This policy applies to all departments and personnel involved in commodity price hedging for the County of Essex. It governs the evaluation, selection, execution, and monitoring of commodity price hedging agreements related to the purchase of commodities. This includes any agreement intended to mitigate price fluctuations in commodities that are critical to the County's operations and financial stability. This policy applies to all projects and operational activities of the County where commodity price hedging agreements may be considered advantageous.

### 3.0 Definitions

To provide context for this policy, a list commonly used terms is provided herein and shall be used in conjunction of the interpretation of this document.

**'County of Essex'** means the Corporation of the County of Essex, and may be used interchangeably with the terms the 'County', the 'Corporation' or 'County of Essex'.

**'Commodity'** refers to agricultural products, forest products, minerals, metals, hydrocarbon fuels, electricity, and other physical goods, excluding chattel paper, documents of title, instruments, money, or securities.

**'Hedging'** means the financial strategy used to offset or mitigate the financial risk associated with price fluctuations of a commodity.

**'Commodity Price Hedging Agreement'** means a contractual arrangement that allows the County to fix the price or establish a price range for the future delivery of a commodity or the future cost of acquiring an equivalent commodity.

### 4.0 Purpose

The purpose of this policy is to provide a structured and transparent approach for the County to assess, implement, and manage commodity price hedging agreements. The policy ensures that the County adheres to legal requirements under the Municipal Act, 2001 and Ontario Regulation 653/05, while making strategic financial decisions that minimize risks associated with commodity price fluctuations. The goals of this policy are to:

- Safeguard public funds by reducing the volatility of commodity prices.
- Ensure the County's investments in hedging are financially beneficial and aligned with operational needs.
- Establish clear governance and reporting mechanisms to maintain transparency and accountability.

## 5.0 Policy

### 5.1 Evaluation and Determination of Hedging Agreements

The following factors will be evaluated to determine if a hedging agreement is beneficial:

- Whether the agreement reduces the financial risks and costs of the County's operations.
- Whether the future cost of the commodity is expected to be lower or more stable with the agreement.
- Whether a detailed project-level cost-benefit analysis or financial impact assessment supports the hedging strategy.
- The inclusion of risk control measures, such as limited credit exposure, standardized agreements, and ongoing monitoring.
- The potential for financial or operational benefits, including long-term stability and reduced-price volatility.

### 5.2 Appropriateness of Hedging Agreements

Hedging agreements will be considered appropriate when:

- They are aligned with the County's financial goals and strategic objectives.
- The financial risks are outweighed by the potential benefits of price stability or cost savings.
- The agreement complies with all regulatory requirements and includes appropriate risk management measures, including minimum credit rating criteria or equivalent counterparty risk assessment.

### 5.3 Risk Management and Monitoring

The Director of Financial Services/Treasurer will ensure that any commodity price hedging agreements include effective risk management practices, such as credit risk limits and regulatory oversight.

The effectiveness of the hedging agreements will be monitored continuously to ensure compliance with the policy and to adjust strategies as needed to address any changing market conditions.

Credit exposure will be limited based on established criteria, and standardized agreements shall be used where feasible. Ongoing monitoring will be conducted to track risk and performance.

## 6.0 Responsibility

6.1 **The County Warden** is responsible to execute authorizing By-laws on behalf of the Corporation with respect to commodity price hedging agreements.

6.2 **The Chief Administrative Officer (CAO)** is responsible for the overall financial management strategy of the County, ensuring that all financial risk management practices, including commodity price hedging, align with the County's long-term goals.

6.3 **The Director of Financial Services/Treasurer** is responsible for evaluating, recommending, and executing commodity price hedging agreements in accordance with this policy.

The Director will also ensure that all hedging agreements comply with relevant legislative requirements and align with the County's financial strategy.

The Director will monitor and report on the performance of all hedging agreements, providing detailed annual reports to Council.

6.4 **The Director, Legislative and Community Services and Clerk** are responsible for authorizing by-laws, making declarations, and certifying documents related to commodity price hedging agreements as required.

6.5 **All Employees Involved in Commodity Hedging** are responsible for ensuring compliance with this policy and for reporting any concerns related to the agreements.

## 7.0 Related Documents/Legislation

- Municipal Act, 2001, S.418
- Ontario Regulation 653/05

- County of Essex Investment Policy

## **8.0 Summary of Amendments**

<b>Date</b>	<b>Amendments</b>
2025-06-15	Updated definitions for clarity and added references to Ontario Regulation 653/05. Expanded the responsibilities section to include oversight of the hedging agreements. Added a risk management section outlining monitoring and credit risk management practices. Updated the policy to reflect current policy template.

## **Appendices**

N/A