Treasury Management Policy

Responsibility for policy: Capital and Finance Committee
Approving authority: Council
Last reviewed: April 2024
Next review: April 2027

Application
1. This policy applies to all staff of the University of Waikato and its subsidiaries.

Scope
2. This policy does not apply to endowment funds managed by the University of Waikato Foundation - Te Pou Taunaki.

Purpose
3. The purpose of this policy is to set out a high-level framework for the University's financial governance and management that minimises risk arising from treasury activities.

Legislative context
4. The following documents provide the legislative context for this policy:
   - Crown Entities Act 2004
   - Education and Training Act 2020
   - Public Finance Act 1989
   - University of Waikato Act 1963

Related documents
5. The following documents set out further information relevant to this policy:
   - Financial Authority Policy
   - Financial Ethics Policy
   - Governance and Management Guidelines
   - Staff Code of Conduct

Definitions
6. In this policy:

   borrowing means any financing outside of routine arrangements with vendors, and credit card facilities. This includes drawdown facilities, and credit facilities with a maturity of greater than 30 days

   controlled trust means any trust that meets the definition of a controlled entity under New Zealand Generally Accepted Accounting Principles (NZ GAAP), and which is therefore included as part of the University's audited consolidated financial statements

   core debt means the amount of drawn debt not expected to be repaid within the next 12 months. It does not include day-to-day debt the University incurs in the normal course of business, particularly credit lines from suppliers

   counterparty means a financial institution with which the University enters into a financial arrangement

   counterparty credit risk means the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the University is a party

   derivative instrument means a financial instrument whose value can be derived from an independent market. It includes forward rate agreements, interest rate swaps, cross currency interest rate swaps, interest rate options, currency options and futures

financial instrument means any contract that both creates a financial asset in one entity and a financial liability or equity instrument in another. It includes cash deposits, lease arrangements, and derivative instruments
fixed rate interest means an interest rate re-pricing date beyond three months forward on a continuous rolling basis
floating rate interest means an interest rate re-pricing within three months
foreign exchange risk means the adverse impact on New Zealand dollar expenses and asset purchases (e.g. purchases of library supplies, scientific equipment) and/or income earned in a non-New Zealand dollar currency (e.g. research) from foreign exchange rate movements
funding risk means the risk that an entity cannot borrow or raise funds under acceptable terms and conditions when it needs to
interest rate risk means the risk that borrowing costs (due to adverse movements in market interest rates) will materially exceed planned/budgeted projections, adversely impacting cost control and capital investment decisions and feasibilities
liquidity risk means the risk that an entity will encounter difficulty in raising funds at short notice to meet commitments, particularly when debt matures. It also encompasses the risk that an entity will have to sell a financial asset at less than fair value to meet those commitments
operational risk means the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls
seasonal debt means debt that occurs as a result of cash outflows ahead of large seasonal cash inflows, which is typically the period June to December
staff means any person with an employment agreement with the University, including an independent contractor (being a person with a contract for services with the University); or an employee of a separate organisation that is contracted to perform work on University premises
subsidiary means any company that meets the definition of a controlled entity under New Zealand Generally Accepted Accounting Principles (NZ GAAP), and which is therefore included as part of the University's audited consolidated financial statements.

Interest rate risk

7. The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of borrowing costs; certainty around borrowing costs is achieved through the active management of underlying interest rate exposures.
8. The following borrowing interest rate limits for core debt must be observed:
    a. The fixed rate amount at any point in time for the core debt should be within the following maturity bands:

Core debt fixed rate limits		
Period	**Minimum**	**Maximum**
0 to 1 year	40%	100%
1 to 3 years	20%	80%
3 to 5 years	0%	60%

    (see Appendix 1 for an example as to the application of these policy hedging parameters)
    b. The above fixed rate limits will apply only where forecast core debt over the ensuing 12 month exceeds $10 million.
    c. In managing its core debt fixed rate within the above limits, the University may change the level of fixed rate debt from time to time through cancellation of existing fixed rate hedges or transacting a fixed to floating rate hedge or transacting a floating to fixed rate hedge, where appropriate.

d. The level of interest rate hedging at any point in time for seasonal debt can be up to 100%.
e. All hedging outside of these parameters and beyond five years requires Council approval.

9. Approved financial instruments are listed in Appendix 1 of this policy.

Liquidity/funding/debt risk

10. The University's borrowing objectives are to provide on-going liquidity and funding support to enable the University to achieve its strategy.
11. The primary objective of liquidity risk management is to ensure there is access to cash, treasury investments, and committed bank funding at a future time when funds are required.
12. In the management of its borrowing the University must minimise costs and risks and comply with financial ratios and limits, as set out in Appendix 2 of this policy.
13. All borrowing and risk management activities must comply with this policy, any other statutory requirements, Secretary of Education and/or Tertiary Education Commission (TEC) requirements (e.g. the Consent to Borrow) and any external lender requirements.
14. The University's liquidity and funding risk control limits are as follows:
    a. Sufficient liquid funds and/or committed bank facilities are available for at least $10 million above the 12-month peak net funding requirement.
    b. Cash commitments from related parties (e.g. trust funds) must not be included within the liquidity measure unless formal documentation of a committed debt facility/loan is executed between the parties.
    c. Council approval is required for all debt and wider funding facilities prior to those facilities being entered into.
    d. The Chief Financial Officer is responsible for ensuring committed credit approved bank facilities are confirmed at least 60 days prior to the expiry date of an existing facility. The schedule of bank accounts held by the University and its subsidiaries is set out in Appendix 3 of this policy.
    e. The amount and expiry date of all bank loans, committed bank facilities, and term debt must not exceed the maximum amount and term of Ministerial consent to borrow.

Foreign exchange risk

15. Foreign exchange exposure based on continually updated forecast payments is recognised on the basis of:
    a. Forecast payments, based on 12-month rolling payment forecasts for each currency, reviewed and updated on a monthly basis. Any foreign exchange receipts are netted against same currency payments.
    b. Value in currency of payment.
    c. Month or date of purchase.
    d. Value expressed in New Zealand dollars (NZD) calculated at market exchange rates prevailing on the day of recognition.
16. Foreign exchange exposures must be recognised and managed when total monthly net payments or individual currency amount exceeds NZD $100,000.
17. The Chief Financial Officer is responsible for operationalising hedging strategies/decisions within control limits.
18. Total net monthly foreign exchange exposures of NZD $100,000 or greater, are to be hedged within the following risk control limits:

Forecast period	Minimum	Maximum
Confirmed / Contracted	80%	100%
Unconfirmed 0-12 months	0%	50%

19. The University must not borrow in a currency other than NZD unless prior approval is granted by Council and the Ministers of Education and Finance.
20. All foreign exchange hedging beyond 12 months requires the prior approval of Council.

Counterparty credit risk

21. The University will only procure funding and/or transact hedging activity with Council approved bank counterparties.
22. Unless otherwise approved by the Council, hedging counterparties will be New Zealand registered banks with a Standard & Poor's ("S&P") long term credit rating of 'A' or above (or equivalent Fitch credit rating of 'A' or above or a Moody's credit rating of 'A2' or above, where Standard & Poor's rating is unavailable)
23. When considering hedging counterparties, preference will be given to existing bank funding partners, risk concentration levels and ensuring pricing is competitive.
24. Counterparties must be rated by at least one of the three major credit rating agencies (Standard & Poor's, Fitch or Moody's) and must meet or exceed an Investment Grade rating as set out in Appendix 4 of this policy.
25. Counterparties whose credit ratings are re-rated below the approved ranking levels, or are placed on watch of a credit down-grade, should immediately be reported to the Chairperson of the Capital and Finance Committee with a recommendation to either hold or replace the counterparty.
26. Minimum credit ratings levels must be reviewed as part of the three-yearly policy review cycle.

Operational risk

27. Operational risk is minimised through the adoption of various internal controls:
    a. Delegated authorities and limits – transactions may only be executed by those persons and within limits approved by the University Council
    b. Segregation of duties - no single person is to deal/make/transact, authorise and confirm a treasury transaction
    c. Procedural controls such as:
        i. regular management reporting, or
        ii. regular risk assessment, including a review of procedures and controls as directed by Council or the Health and Safety, Risk and Assurance Committee.
    d. Organisational, systems and reconciliation controls to ensure:
        i. all cash management, borrowing, treasury investment and risk management activity is bona fide and properly authorised
        ii. checks are in place to ensure accounts and records are updated promptly, accurately and completely
        iii. risk positions are updated, reviewed and reported on a regular basis
        iv. all outstanding transactions are re-valued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity
        v. the use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) are recorded and sent to counterparties.
        vi. the matching of third-party confirmations and the immediate follow-up of anomalies, and
28. Any unresolved discrepancies must immediately be notified to the Chief Financial Officer.

Cash management and investment

29. Appropriate investment strategies must be applied to all University funds to ensure that external borrowing is minimised through the effective recycling of surplus cash.
30. Surplus funds must be utilised to repay debt in the first instance.

Cash handling

31. Since 1 October 2020 the University has transacted by digital means only; no receipts or payments are accepted or paid by cash or cheque.
32. The only exception to clause 31 of this policy is for the payment of koha and the only means of supplying koha in cash is via an authorised one-off PCard cash out facility in accordance with the Koha and Donations Policy.
33. Exceptions to clauses 31 and 32 of this policy are subject to the prior approval of the Chief Financial Officer.

Payment gateway or credit card/EFTPOS payment facilities

34. Approval of the establishment of any new payment gateway or credit card/EFTPOS payment facility must be obtained from the Chief Financial Officer prior to the establishment of the facility.
35. The Chief Financial Officer is responsible for ensuring that internal control procedures for a payment/collection point are appropriate, and that duties for the receipting, distribution, and recording of transactions are segregated, physically or with appropriate system controls built into the payment/collection handling procedure.

PCard facilities

36. Only the Chief Financial Officer has authority to approve the establishment of any purchasing card (PCard) facility for the University.
37. Conditions for the provision and use of PCards are set out in the PCard Policy.

Leases

38. The University recognises that leasing can be a cost-effective method for long-term management of information technology (IT) assets, telecommunication equipment, photocopiers and other similar types of equipment. Leasing provides the University with more timely, orderly, cost-effective, and risk-free technology refreshments to mitigate technology obsolescence. Furthermore, leasing provides the University with predictable funding forecasts of IT and telecommunication equipment, and it keeps asset management and maintenance at a cost-effective price.
39. The University may enter into a *finance lease* for various properties, computers and electronic equipment. In a finance lease, all risks and benefits incidental to ownership of the leased asset rest with the lessee, i.e. the University. A finance lease arrangement is very similar to secured borrowing. If circumstances exist which indicate that a finance lease is the preferred method of financing available, the Chief Financial Officer must indicate this fact in their evaluation of the proposal and state the reasons for this decision.
40. The University may enter into an *operating lease* for various property, plant and equipment in the normal course of its business. In an operating lease, substantially all the risks and benefits which are associated with the ownership of the leased asset remain with the lessor, that is, the financial institution. An operating lease is very similar to a hiring arrangement.
41. Equipment which is subject to an operating lease is to be returned at the end of the lease period to avoid payment of any penalties; prior approval by the Chief Financial Officer is required if a lease is to be extended.
42. The University will only enter into a finance or operating lease with reputable finance companies or financial institutions.
43. All University finance and operating leases must be approved in accordance with the Treasury Delegated Authority Framework as set out in Appendix 5 of this policy.
44. The Chief Financial Officer must maintain a register of all finance and operating leases.

Responsibilities

45. Council is responsible for ensuring that there is an effective framework for the management of treasury risk and deciding the level and nature of risk that is acceptable given the objectives of the University; it delegates responsibility for treasury strategy to the Capital and Finance Committee and the Vice-Chancellor.
46. The Vice-Chancellor delegates responsibility for day-to-day treasury management to the Chief Financial Officer.
47. The Capital and Finance Committee, a committee of Council, is responsible for conducting its business in accordance with it terms of reference, including:
    a. receiving and reviewing internal reports on treasury matters, risk exposure and financial instrument usage that enable monitoring of compliance to this policy
    b. notifying breaches of this policy to Council
    c. making recommendations to Council for approval of one-off transactions falling outside this policy
    d. conducting a regular review of this policy.
48. The Treasury Management Committee, an advisory committee to the Vice-Chancellor, and is responsible for conducting its business in accordance with its terms of reference, including:
    a. monitoring the liquidity, treasury investment, borrowing, interest rate and foreign exchange risk position (actual and projected) against limits, and the treasury management strategies being implemented by management
    b. examining economic and financial market trends and their impact on risk positions and recommended strategies, and
    c. considering treasury management strategies and tests to financial and treasury management objectives.
49. The Chief Financial Officer is responsible for:
    a. day-to-day treasury management activities
    b. in conjunction with the Vice-Chancellor and the Chief Operating Officer, developing the annual financial budget and long-term borrowing, treasury investment and risk management strategy and plans
    c. ensuring that management procedures are implemented in accordance with this policy
    d. reporting to the Capital and Finance Committee and Council on treasury matters
    e. advising the Vice-Chancellor, Chief Operating Officer, Capital and Finance Committee and Council of significant treasury events
    f. recommending authorised signatories and delegated authorities in respect of all treasury dealing and banking activities to the Vice-Chancellor
    g. the management of bank relationships and the negotiation of bank funding and financial market dealing facilities
    h. the approval of new counterparties and counterparty limits
    i. the approval of treasury transactions in accordance with their delegated authority
    j. the annual review of all delegated authorities and signatories to ensure that they are still appropriate and current
    k. monitoring and reviewing the performance of the treasury function in terms of achieving its objectives.
    l. notifying all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind the University, and
    m. whenever a person with delegated authority on any account or facility leaves the University, ensuring that all relevant banks and other counterparties are formally notified within 10 working days to ensure that no unauthorised instructions are able to be accepted from them.

Treasury performance reporting

50. Treasury performance reporting to the Capital and Finance Committee and Council must:
    a. identify the University's current risk exposure position and profile for all of the financial market variables it is exposed to. Each position must include underlying exposures, hedges in place and the actual net risk position against approved policy control limits
    b. identify actual risk management performance of interest rates and exchange rates achieved against agreed benchmark rates
    c. assess policy compliance and conformity to risk control limits and report non-compliance of policy by exception, and
    d. comment on current financial market and treasury strategy.

Policy review

51. The appendices to this policy must be reviewed by the Chief Financial Officer annually.
52. This policy must be reviewed by the Chief Financial Officer at least every three years; the review must have independent oversight.

Responsibility for monitoring compliance

53. The Capital and Finance Committee is responsible for monitoring compliance with this policy, by way of six-monthly reports from the Chief Financial Officer.
54. Breaches of this policy must be reported to the Vice-Chancellor and the Chairperson of the Capital and Finance Committee, and may result in disciplinary action under the Staff Code of Conduct.