TE WHARE WĀNANGA O TE ŪPOKO O TE IKA A MĀUI
VICTORIA
UNIVERSITY OF WELLINGTON

Treasury Statute

Finance Policy

1 Purpose

The purpose of the Treasury Statute (the 'Statute') is to outline approved policies and procedures in respect of all treasury activity to be undertaken by the Victoria University of Wellington (the 'University'). The formalisation of such policies and procedures will enable treasury risks within the University to be prudently managed.

The University is a risk averse organisation and therefore seeks to minimise risk arising from its treasury activities. The University's finance function in relation to its treasury activity is a risk management function focussed on protecting its long-term plans, financial budgets and stabilising its income and expense lines. Accordingly, all treasury activity manages and protects legitimate underlying exposures, and activity that may be construed as speculative in nature is expressly forbidden.

As circumstances change, the policies and procedures outlined in this Statute will be modified to ensure that treasury risks within the University continue to be well managed. In addition, annual reviews will be conducted to test the existing Statute against the following criteria:

(i) Sector and tertiary institution, "best practices" for an education institution the size of the University.

(ii) The risk bearing ability and tolerance levels of the underlying revenue and cost drivers, and statutory stakeholder requirements.

(iii) The effectiveness and efficiency of the Statute and treasury management function to recognise, measure, control, manage and report on the University's financial exposure to market interest and foreign exchange rate risks, funding risk, liquidity, treasury investment risks, counterparty credit risks and other associated risks.

(iv) The operation of a pro-active treasury function in an environment of control and compliance.

(v) The robustness of the Statute's risk control limits and risk spreading mechanisms against normal and abnormal financial market movements and conditions.

(vi) Consistency in achieving the University's strategic objectives and financial plans/budgets.

The objective of this Statute is to control and manage costs and treasury investment returns that can influence long-term plans, operational budgets and financial equity.

1.1 General objectives of this Statute:

(a) Undertake financial management activity to ensure the University achieves its fiscal strategy, long-term plans and financial budget.

(b) Maintain appropriate liquidity levels and manage cash flows within the University to meet known and reasonable unforeseen funding requirements.

(c) Minimise costs and risks in the management of the University's borrowing.

(d) Minimise exposure to adverse wholesale interest rate movements.

(e) Arrange and structure long-term funding at the lowest achievable interest margin from debt lenders. Optimise flexibility and spread of debt maturity.

(f) Monitor and report on borrowing financial covenants and ratios under the obligations of lending arrangements, and Tertiary Education Commission ('TEC') requirements.

(g) Comply with financial ratios and limits stated within this Statute.

(h) Managing net foreign exchange payments protecting the NZD financial budget.

(i) Invest, borrow and transact risk management instruments within an environment of control and compliance.

(j) Monitor, evaluate and report on treasury compliance and performance.

(k) Ensure the University Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.

(l) To minimise exposure to counterparty credit risk by dealing with and investing in credit worthy counterparties.

(m) Ensure that all statutory requirements of a financial nature are adhered to.

(n) To ensure adequate internal controls exist to protect the University's financial assets, prevent unauthorised transactions, and project a professional image of financial and management control.

(o) Develop and maintain positive relationships with financial institutions, the TEC and the Ministry of Education.

2 Organisational Scope

The Statute identifies the policy of the University in respect of treasury management activities. The University manages its activities as a centralised treasury function across its subsidiaries and trusts where appropriate. The Statute applies to all University staff and to the University's subsidiaries. The list of entities is included in Appendix A.

It is intended that the Statute be distributed to all personnel involved in any aspect of the University's financial management. In this respect, all staff must be completely familiar with their responsibilities under the Statute at all times, adherence to the Statute is mandatory.

3 Definitions

For purposes of this Statute, unless otherwise stated, the following definitions shall apply:

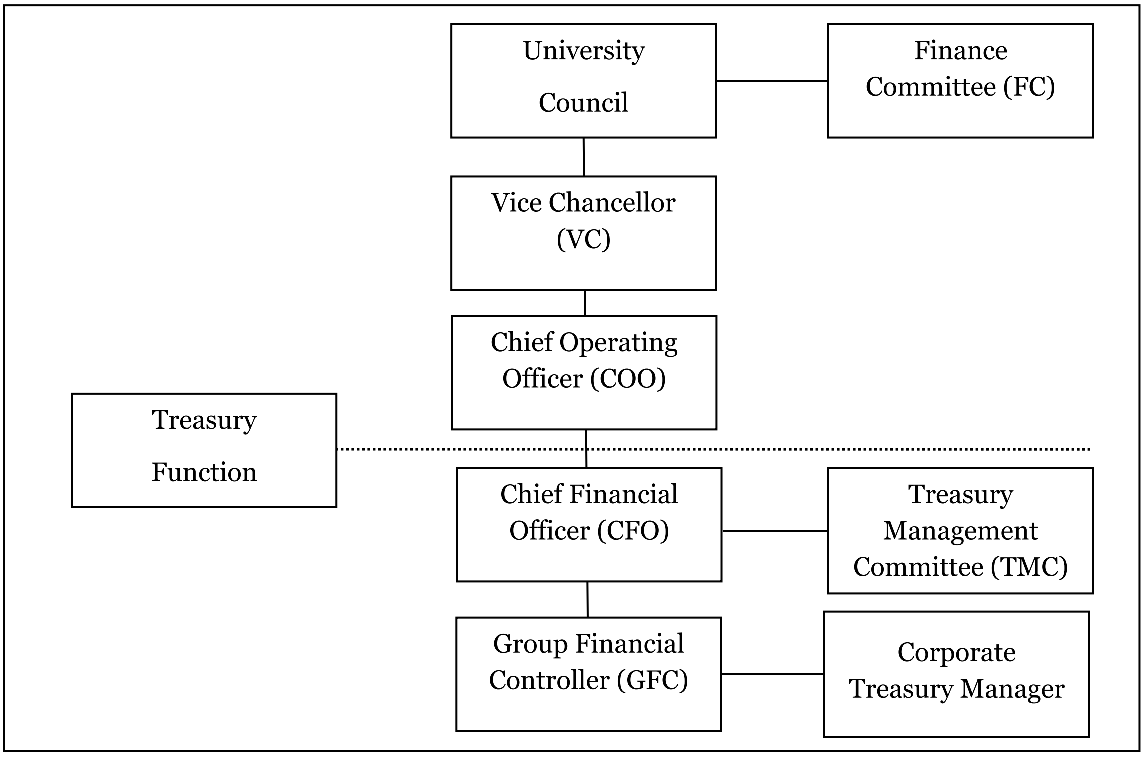
Borrowing:	Any financing outside of routine arrangements with vendors, and credit card facilities. Includes draw-down facilities, and credit facilities with a maturity of greater than 30 days.
Core Debt:	The amount of drawn debt not expected to be repaid within the next 12 months. Does not include day-to-day debt the University incurs in the normal course of business, particularly credit-lines from suppliers.
Counterparty Credit Risk:	The risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the University is a party.
Derivative Instrument:	A financial instrument whose value can be derived from an independent market. Includes Forward Rate Agreements, Interest Rate Swaps, Cross Currency Interest Rate Swaps, Interest Rate Options, Currency Options, and Futures.
Financial Arrangement:	Some financial instruments such as lease arrangements and hire purchase agreements are commonly referred to as financial arrangements.
Financial Instrument:	Any contract that both creates a financial asset in one entity and a financial liability or equity instrument in another. Includes cash deposits, lease arrangements, and derivative instruments.
Fixed Rate Interest:	An interest rate re-pricing date beyond 12 months forward on a continuous rolling basis.
Floating Rate:	An interest rate re-pricing within 12 months.
Foreign Exchange Risk:	The adverse impact on the NZD expenses and asset purchases (e.g. purchases of library supplies, scientific equipment) from foreign exchange rate movements.
Interest Rate Risk:	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.
ISDAs Master Agreement:	An ISDA master agreement is a document agreed between two parties that sets out standard terms that apply to all the transactions entered into between those parties. The master agreement is the most commonly used master service agreement for OTC derivative transactions internationally. It is part of a framework of documents, designed to enable OTC derivatives to be documented fully and flexibly.
Legal & Regulatory Risk:	Relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction, usually because of prohibitions contained in legislation.
Liquid Assets:	Cash or any other financial asset that can be liquidated within two working days.

Liquidity Risk:	The risk that an entity will encounter difficulty in raising funds at short notice to meet commitments, particularly when debt matures. Also encompasses the risk that an entity will have to sell a financial asset at less than fair value to meet those commitments.
Medium Term Plan:	The 5 year financial forecast and outlook prepared by Finance and presented to the University's Finance Committee and Council for approval.
NZ IFRS:	New Zealand equivalents to International Financial Reporting Standards.
NZ IPSAS:	New Zealand equivalents to International Public Sector Accounting Standards.
Operational Risk:	The risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls.
Staff:	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.
Treasury Management Committee:	The Treasury Management Committee ('TMC') is a specialised management committee with a mandate to focus on the University's treasury exposures, chaired by the Chief Financial Officer.

4 Management Responsibilities

4.1 Overview of management structure

(a) The following diagram illustrates those individuals and bodies who have treasury responsibilities. Authority levels and reporting lines are illustrated below.



(b) Treasury duties and responsibilities are outlined in Appendix B.

(c) Detailed tasks and responsibilities of the University's Finance Team are captured within a separate Treasury Procedures Manual.

4.2 Delegation of authority and authority limits

(a) Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of "apparent authority". Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays). To prevent these types of situations, the following procedures must be complied with:

(i) All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current.

(ii) A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind the University.

(iii) Whenever a person with delegated authority on any account or facility leaves the University, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.

(b) Delegated authority and authority limits are set out in Appendix C.

5. Debt management

5.1 General framework

(a) All borrowing requires the written approval of the Secretary to the Ministry of Education under Section 192 of the Education Act 1989. Generally long-term borrowing will be used for capital investment purposes as follows:

(i) Erecting, constructing or making additions or alterations to buildings; or

(i) Purchasing or developing land for University purposes; or

(ii) Purchasing plant and equipment; or

(iii) Repaying in full or in part any existing loan/facility; or

(iv) Any other investment that has been approved by Council.

(b) Within statutory, TEC, and bank lender requirements, the borrowing programme is established by resolution of the University Council and reviewed annually by Finance Committee during the financial budgeting process. The objectives of a borrowing programme are to ensure that the University has sufficient funds to prudently carry out its short and long-term activities.

(c) Where possible, the University will utilise its treasury investment portfolio to meet operational requirements, unless there is a compelling reason to borrow specifically. Treasury investment funds are sourced from University trust funds and operational cash surpluses.

5.2 Borrowing objectives

The University's borrowing objectives are as follows:

(i) That all borrowing and risk management activities are in compliance with statutory and TEC regulations, the Consent to Borrow, and approved by the University Council.

(ii) To provide on-going liquidity and funding support to enable the University to achieve its education objectives and financial strategy.

(iii) To minimise costs and risks in the management of its borrowing.

(iv) To minimise exposure to adverse wholesale interest rate movements.

(v) To arrange and structure long-term borrowing at the lowest achievable interest margin.

(vi) To optimise flexibility and spread of debt maturities.

(vii) To comply with those financial ratios and limits as set out in Appendix E. The objective is to monitor and comply with such ratios and limits on a current and prospective basis.

5.3 Liquidity / Funding risk

5.3.1 Risk recognition

(a) Funding gaps or deficits in various future periods identified in debt forecasts are reliant on the maturity structure of cash, treasury investments and committed bank loans/facilities.

(b) Liquidity risk management focuses on the ability to access cash, treasury investments, and committed bank funding at that future time to fund the gaps. A liquidity buffer amount is also maintained to manage any unforeseen or unknown requirements.

(c) Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and interest margins) and maturity terms, of existing bank loans/facilities. The management of funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility including:

(i) Education sector risk is priced to a higher fee and margin level.

(ii) The University's own credit standing or financial strength as a borrower deteriorates due to financial or other reasons.

(iii) A large individual lender to the University experiences their own financial/exposure difficulties resulting in the University not being able to manage their debt portfolio as optimally as desired.

(iv) A general movement in debt capital markets that influence funding availability and margins.

(d) A key factor of funding risk management is to spread and control the risk by reducing the concentration of risk at one point in time, so that if any of the above events occur, the overall Consent to Borrow is not unnecessarily increased and desired maturity profile compromised due to market conditions.

5.3.2 Liquidity/Funding risk control limits

The University's liquidity and funding risk control limits are as follows:

(i) Sufficient liquid funds and/or committed bank facilities are available for at least $10 million above the 12 month peak net funding requirement. Approved cash/treasury investments are set out in Appendix D.

(ii) Cash commitments from related parties (e.g. trust funds) should not be included within the liquidity measure unless formal documentation of a committed debt facility/loan is executed between the parties.

(iii) The Chief Financial Officer ('CFO') has the discretionary authority to re-finance existing debt on more favourable terms. Committed credit approved bank facilities must be confirmed at least 60 days prior to the expiry date of an existing facility. Such action is to be reported and ratified by the Finance Committee at the earliest opportunity.

(iv) The maturity profile of the total committed funding in respect to all external debt should be spread where practicable to reduce the concentration risk of having all or most of the University's committed funding maturing at the same time. The maturity profile of total committed funding when external drawn core debt exceeds, or is forecast to exceed, $10 million will be as follows:

Period	Minimum	Maximum
0 to 2 years	*0%*	*80%*
2 to 5 years	*0%*	*100%*
5 years plus	*0%*	*75%*

(v) The amount and expiry date of all bank loans, committed bank facilities, and term debt will not exceed the maximum amount and term of the Ministerial Consent to Borrow.

(vi) Approved borrowing instruments are set out in Appendix D.

5.4 Related party borrowing/lending

For operational funding purposes, the University may borrow from related entities under a formal approved borrowing and lending arrangement. The borrowing arrangement should include the agreed committed facility amount, tenor, terms, conditions and pricing.

5.5 Financial arrangements

Financial arrangements between the University and a third party, including hire purchase and any leasing transactions, may not be entered unless approved by the CFO.

5.6 Borrowing ratios and limits

Borrowing will be managed within the financial ratios and limits required by lenders and the TEC. Financial ratios and limits are outlined in Appendix E. The Group Financial Controller (GFC) ensures that these requirements are complied with at all times. Where these limits are likely to be exceeded, prior approval of the University Council, TEC and bank lenders is necessary. In approving new debt the University Council considers the impact on its borrowing ratios and limits.

5.7 New borrowing

(a) In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the CFO takes into account the following:

(vii) The TEC business case, strategic/capital plan and approved borrowing programme.

(viii) The size, economic life, and income earned of the specific project/asset/ expenditure.

(ix) Current and forecast impact on borrowing ratios and limits.

(x) Available terms from bank lenders and other sources.

(xi) Repayment terms and requirements.

(xii) The overall debt maturity profile, to ensure concentration of debt is avoided.

(xiii) Prevailing interest rates and margins relative to term for borrowing.

(xiv) The market's outlook on future interest rate movements as well as its own.

(xv) The terms and conditions such as cost/risk/certainty/flexibility.

(xvi) Security arrangements.

(xvii) Legal documentation and financial covenants.

(b) The University's ability to attract cost effective borrowing is driven by its ability to maintain a strong financial standing and operating position, maintain and manage its strong relationship with the Ministry of Education, TEC, and financial institutions.

5.8 Security arrangements

(a) The University's borrowing, interest-rate and foreign exchange risk management activities will be unsecured by way of a deed of negative pledge. Financial covenants may include ratios related to gearing and interest coverage. The University does not offer security by way of a charge over land and buildings. Physical assets may be secured where:

(i) There is a direct relationship between the borrowing and the purchase or construction of the asset, which it funds.

(ii) The University considers a charge over physical assets to be appropriate.

(iii) Any pledging of physical assets complies with all Treasury Statute, statutory and regulatory requirements.

(iv) Approved by Council.

5.9 Debt repayment

(a) Funds from fees/interest income, operating surpluses and asset sale proceeds, will be applied to the reduction of debt and/or a reduction in borrowing requirements, unless the University Council specifically directs that the funds will be put to another use.

(b) The University will manage debt on a net portfolio basis and will only externally borrow when it is commercially prudent to do so.

6. Investment management

6.1 General framework

(a) The University will utilise its treasury investment portfolio to meet operational funding requirements. Investment funds are sourced from University trust funds and operating cash surpluses arising from normal operations.

(b) Section 203(4) of the Education Act 1989 provides that the University must invest funds in accordance with s65I (1) and (2) of the Public Finance Act 1989. The intention is that the University's investment powers are conservative and expected to be risk averse. The University recognises that all investments held should be low risk, which generally means lower returns.

(c) These restrictions do not apply to University controlled Trusts. Such entities are required to operate within the terms of their Trust Deed, with credit worthy counterparties and in accordance with strategic investment policies (SIPOs), which set out investment class limits. A Trust SIPO for a controlled Trust must be consistent with the terms of that trust's Trust Deed and the legal duties and obligations placed on its trustees.

6.2 Investment objectives

(a) In its financial investment activity, the University's primary objective is the protection of its investment capital, and to ensure that a prudent approach to risk/ return is always applied within the confines of this Statute. Accordingly, the University may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 7.3. Credit ratings are monitored and reported regularly to Council through the Finance Committee.

(b) The University will act effectively and appropriately to ensure:

(i) Treasury investments are arranged to provide sufficient liquid funds for planned expenditures and allow for the payment of obligations as they fall due.

(ii) The University invests in approved financial instruments as listed in Appendix D.

(iii) The University's treasury investment maturity profile will be managed within the parameters outlined in section 7.1.3.

(iv) Other than Trust funds, all interest income is credited to general funds which are held in a University bank account.

6.3 Investment Philosophy and Strategy

Victoria University has formally adopted a commitment to sustainability as part of the agreed values and strategies in its strategic plan. To support the achievement of its strategic goals, in all activities governed by the Treasury Statute, Victoria University must adopt the United Nations Principles for Responsible Investment (PRI) Initiative. Victoria will seek to put the Six Principles for Responsible Investment into practice.

The Six Principles for Responsible Investment are:
(i) We will incorporate Environmental, Social and Governance (ESG) issues into investment analysis and decision-making processes.
(ii) We will be active owners and incorporate ESG issues into our ownership policies and practices.
(iii) We will seek appropriate disclosure on ESG issues by the entities in which we invest.
(iv) We will promote acceptance and implementation of the Principles within the investment industry.
(v) We will work together to enhance our effectiveness in implementing the Principles.
(vi) We will each report on our activities and progress towards implementing the Principles.

Practical Application of the Principles

(i) The University, on behalf of its subsidiaries and controlled entities, require investment activities to be managed in compliance with the Six PRI Principles. For associated and related entities, where full control is not exercised, the University will advocate and encourage investment decision making to take account of the PRI principles.

(ii) The University recognises that it is not practical to purchase diversified securities and bonds across global markets on its own behalf and that the University will likely utilise investment managers who operate with pooled funds. The size of any University controlled mandate is unlikely to be significant enough to enable the University to have full control over the portfolio of securities purchased on its behalf by investment managers.

(iii) The University will make its ESG preferences known to all of its investments managers and will actively seek out managers who have adopted the PRI principles.

6.4 Trust funds

Where the University holds funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the Trust Deed. If the Trust's investment framework is not specified, then this Statute should apply.

6.5 Related party lending

Under the Public Finance Act, s65I (1), the University is permitted to provide funding to related entities and subsidiaries for purposes that are not for monetary gain, i.e. educational. If the purpose is for monetary gain, Ministerial approval is required.

7 Risk recognition/identification/management

The definition and recognition of interest rate, liquidity, funding, treasury investment, counterparty credit, market, operational and legal risk will be as detailed below.

7.1 Interest rate risk

7.1.1 Risk recognition

Interest rate risk is 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.

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.

7.1.2 Borrowing interest rate limits

(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**
1 to 3 years	*40%*	*100%*
3 to 5 years	*0%*	*80%*
5 to 10 years	*0%*	*50%*

(b) The above risk control limits will only apply where forecast core external debt over the ensuing 12 month exceeds $10 million.

(c) In managing its Core Debt Fixed Rate within the above limits, the University may reduce 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, where appropriate.

(d) The level of interest rate hedging at any point in time for seasonal debt should be within the following maturity bands:

Seasonal Debt Fixed Rate Limits		
Period	**Minimum**	**Maximum**
0 to 1 month ahead	*0%*	*100%*
1 to 3 months ahead	*0%*	*50%*
3 to 6 months ahead	*0%*	*30%*

(i) "Fixed Rate" is where the interest rate re-pricing date is more than 12 months forward on a continuous rolling basis.

(ii) "Floating Rate" is where the interest rate re-pricing falls within the ensuing 12 months.

(iii) "Core debt" is debt that is not forecast or scheduled (in the case of committed facilities or fixed term debt) to be repaid within the ensuing 12 months.

(iv) "Seasonal debt" is debt that occurs as a result of a cash outflows ahead of large seasonal cash inflows. Typically for the University this is the period from December to March, inclusive.

(e) Approved financial instruments are listed in Appendix D.

7.1.3 Treasury investment maturity limits

(a) The following controls are designed to manage maturity risk on the treasury investment portfolio. The primary objective of the treasury investment portfolio is to match the portfolio's maturity term to planned expenditure thereby ensuring that investments are available when required. There is no separate management of interest rate risk.

(b) Approved instruments are listed in Appendix D.

7.2 Foreign exchange risk

7.2.1 Risk recognition

(a) Foreign exchange risk is defined as the adverse impact on the New Zealand dollar ('NZD') expenses and asset purchases (e.g. purchase of library supplies, scientific equipment) from foreign exchange rate movements.

(b) Foreign exchange exposure based on continually updated forecast payments is recognised on the basis of:

(i) 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.

(ii) Value in currency of payment.

(iii) Month or date of purchase.

(iv) Value expressed in NZD calculated at market exchange rates prevailing on the day of recognition.

(c) Foreign exchange exposures are recognised and managed when total monthly net payments or individual currency amount exceeds NZD100,000.

7.2.2 Annual budget exchange rates

When setting exchange rates in the annual financial budgeting process, the University's policy is to apply the contracted exchange rates per forward contracts held and maturing in the budgeted financial year.

7.2.3 Risk management policies and limits

(a) The CFO is responsible for hedging strategies/decisions. The CFO has discretionary authority to position hedging percentages near to the minimum or maximum of the risk control limits depending upon foreign exchange market trends/influences and anticipated changes to payment forecasts.

(b) It is the GFC's responsibility to ensure that up-to-date and accurate rolling 12-month foreign exchange payment forecasts are available each month. Any over-hedged position will be tactically managed and closed out.

(c) 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 0-3 months	50%	95%
Unconfirmed 3-6 months	25%	75%
Unconfirmed 6-12 months	0%	60%

(d) Confirmed/contracted exposures are fully protected upon an approved purchase order being raised, the exposure is legally committed and the currency type, amount and timing are known.

(e) The University will not borrow in a currency other than the NZD currency unless prior approval is granted by Council and the Ministers of Education and Finance.

(f) Approved instruments are listed in Appendix D.

7.2.4 Foreign exchange transactions in NZD

The University may limit its foreign exchange exposure by committing to pay for foreign exchange purchases in NZD. To assess NZD price competitiveness in such circumstances, the University must obtain from the supplier both the NZD cost and the foreign exchange equivalent for the item(s) purchased before committing to payment terms, where the total exposure exceeds $100,000.

7.3 Counterparty credit risk

(a) Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the University is a party. The credit risk to the University in a default event will be weighted differently depending on the type of instrument entered into.

(b) Treasury related transactions are only entered into with organisations specifically approved by the University Council. Counterparties and limits can only be approved on the basis of long-term/equivalent credit ratings (Standard & Poor's, Fitch or Moody's) being A+ or above, or a short-term rating of A-1 or above.

(c) The University's financial exposure to any one counterparty may not exceed the greater of 33% of the total weighted exposure or $40 million. The total weighted exposure is measured at month end reporting, and includes the total weighted exposure of investments and current credit exposure amount for interest rate and foreign exchange derivatives for all bank counterparties.

(d) Counterparty credit limits have been determined by the following instrument weightings:

(i) Investments (eg Bank Deposits) – Transaction Notional x Weighting 100%.

(ii) Interest Rate Risk Management (eg swaps, FRAs) – the credit exposure on each interest rate risk management instrument is the sum of 3% of the notional 'face' value of the contract and its mark-to-market valuation. If this sum is negative (i.e. the instrument is 'out of the money' by more than 3% of the notional face value), there is no credit exposure on the instrument..

(iii) Foreign Exchange – 10% pf the face value amount.

(e) Bank borrowing will be from New Zealand registered banks that have a long-term/equivalent credit rating (Standard & Poor's, Fitch or Moody's) of A+ or above.

(f) Credit ratings should be reviewed by the GFC on an on-going basis and in the event of a credit rating downgrade should be immediately reported to the CFO and assessed against policy limits. Counterparties exceeding limits should be reported to the Council.

(g) To avoid undue concentration of exposures, financial instruments should be transacted with as wide a range of approved counterparties as possible.

7.4 Operational risk

(a) Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls. Operational risk is very relevant when dealing with financial instruments given that:

(i) Financial instruments may not be fully understood.

(ii) Too much reliance is often placed on the specialised skills of one or two people.

(iii) Most treasury investments are executed over the phone.

(b) Operational risk is minimised through the adoption of all requirements of this Statute.

7.4.1 Dealing authorities and limits

Transactions will only be executed by those persons and within limits approved by the University Council.

7.4.2 Segregation of duties

As there are a small number of people involved in the treasury function, adequate segregation of duties among the cash management, treasury investment, borrowing and risk management functions of deal execution, confirmation, settling and accounting/reporting is not strictly achievable. The risk will be minimised by the following process:

(i) The GFC reports directly to the CFO.

(ii) There is a documented approval process for cash management, borrowing, treasury investment and interest/foreign exchange rate activity.

7.4.3 Procedures and organisational controls

(a) Procedural and organisational controls relate to the segregation of duties, internal controls and cross checks to better ensure the bona fide nature of treasury activity. The controls should include:

(i) Regular management reporting.

(ii) Regular risk assessment, including review of procedures and controls as directed by the University Council or Finance Committee.

(iii) Organisational, systems, procedural and reconciliation controls to ensure:

(a) All cash management, borrowing, treasury investment and risk management activity is bona fide and properly authorised.

(b) Checks are in place to ensure accounts and records are updated promptly, accurately and completely.

(c) Risk positions are updated, reviewed and reported on a regular basis.

(d) 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.

(b) The GFC has responsibility for establishing appropriate structures, procedures and controls to support treasury activity. All cash management, borrowing, treasury investment and risk management activity is undertaken in accordance with approved delegations authorised by the Council.

(c) Detailed treasury procedures and organisational controls are captured within a separate Treasury Procedures Manual.

7.5 Legal risk

(a) Legal and regulatory risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, the University may be exposed to such risks, in the event that the University is unable to enforce its rights due to deficient or inaccurate documentation.

(b) The University will seek to minimise this risk by:

(i) Ensuring all University authorities in regards to treasury transactions are approved as required by legislation.

(ii) The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.

(iii) The matching of third party confirmations and the immediate follow-up of anomalies.

(iv) The use of expert advice.

7.5.1 Agreements

(a) Funding arrangements, investments and financial instruments can only be entered into with banks that have an approved and executed legal agreement or ISDA Master Agreement.

(b) The University's internal/appointed legal counsel must review and approve all legal documentation.

7.5.2 Financial covenants and other obligations

(a) The University must not enter into any transactions where it would cause a breach of financial covenants/ratios under existing contractual arrangements.

(b) The University must comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

8. Cash Management

(a) The GFC has the responsibility to carry out the day-to-day cash management activities. All cash inflows and outflows pass through bank accounts controlled by the finance function.

(i) The Corporate Treasury Manager will calculate and maintain rolling cash flow forecasts on a daily (twelve month forward) and annual (five years forward) basis. These cash flow forecasts determine the University's borrowing requirements, liquidity and surpluses for investment. Forecasts are linked to approved financial budgets and plans where relevant, including the Long Term Capital Plan

(ii) On a daily basis the Finance Team electronically downloads all bank account information.

(iii) The Finance Team co-ordinates all daily cash inflows and outflows with the objective of managing the cash position within approved parameters.

(iv) The Finance Team, upon approval of the GFC and/or the Corporate Treasury Manager executes all cash management and treasury investment transactions.

(v) The University will hold an appropriate liquidity buffer in the sweep Treasury bank account, with surplus cash automatically bearing overnight interest income.

(vi) Sufficient liquid funds and/or committed bank facilities are available for at least $10 million above the 12 month peak net funding requirements. Liquid funds are either held in overnight bank cash deposits, registered certificates of deposit or bank term deposits maturing within a six month period.

(vii) Interest rate management on cash management balances is not permitted.

(b) To ensure an efficient and effective cash management function the Corporate Treasury Manager:

(i) Matches future cash in/out flows to smooth the overall timeline profile.

(ii) Minimises fees and bank charges by optimising bank account/facility structures.

(iii) Maximises the return from available funds by ensuring significant payments are made within the vendor's payment terms, but no earlier than required, unless there is a financial benefit from doing so.

(iv) Reports detail actual cash flows during the month compared with those budgeted.

(v) Maintains accurate cash flow forecasts using spreadsheet modelling.

9. Treasury Performance and Reporting

9.1 Measuring treasury performance

(a) In order to determine the success of the University's treasury management function, the following benchmarks and performance measures have been prescribed.

(b) Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of investment, borrowing and interest/foreign exchange rate risk) are to be reported to Council on a regular basis.

Management	Performance
Operational performance	• All policy limits must be complied with, including (but not limited to) counterparty credit limits, control limits and exposure limits. • All treasury deadlines are to be met, including reporting deadlines.
Borrowing costs	• The actual borrowing cost (taking into consideration any costs/benefits of entering into interest rate management transactions) should be below the budgeted YTD/annual interest cost amount. • Actual wholesale interest costs must be benchmarked to a market interest rate. The market interest rate is the mid-point policy benchmark rate.
Treasury investment returns	• The actual investment income for the University should be above the budgeted YTD/annual interest income amount.
Foreign exchange rates	• The actual monthly NZD conversion rate should outperform the budget foreign exchange rate.

9.2 Treasury reporting

(a) Treasury reporting must achieve coverage of the following major information/reporting objectives:

(i) Risk exposure position: the University's current risk position and profile for all the financial market variables it is exposed to. The positions include underlying exposures, hedges in place and the actual net risk position against approved policy control limits.

(ii) Risk management performance: Actual performance of interest rates and exchange rates achieved against agreed benchmark rates.

(iii) Statute compliance: Reports that confirm conformity to Statute risk control limits and report non-compliance of Statute by exception.

(iv) Commentary on financial market and treasury strategy updates.

(b) Type of report, prepared by, and recipient are listed in Appendix F. Examples of reporting are presented in a separate Treasury Procedures Manual.

9.3 Accounting treatment of financial instruments

(a) The University uses financial instruments/derivatives for the primary purpose of reducing its financial risk to fluctuations in interest rates and foreign exchange rates. The purpose of this section is to articulate the University's accounting treatment of derivatives in a broad sense. Further detail of accounting treatment is contained within the University's Treasury Procedures Manual.

(b) Under NZ IFRS accounting standards changes in the fair value of derivatives go through the Income Statement unless hedge accounting has been adopted and derivatives are designated in an effective hedge relationship.

(c) The University's principal objective is to actively manage foreign exchange and interest rate risks within approved limits and chooses not to hedge account. The University accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in annual surpluses.

(d) The GFC is responsible for advising the CFO of any changes to relevant NZ IFRS and/or NZ IPSAS which may result in a change to the accounting treatment of any financial derivative product.

10. Statute Review

(a) The Statute is to be formally reviewed on an annual basis. A fundamental review is completed three yearly.

(b) The GFC has the responsibility to prepare a review report that is presented to the Finance Committee. The report will include:

(i) Recommendation as to changes, deletions and additions to the Statute.

(ii) Overview of the treasury management function in achieving the stated objectives; summary of breaches and one-off approvals to highlight areas of tension.

(iii) Analysis of bank and lender service provision, share of financial instrument transactions etc.

(iv) Comments and recommendations from the internal/external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.

(v) An annual audit of the treasury spreadsheets/monitoring tools and procedures should be undertaken.

(c) The Finance Committee receives the report and makes recommendations to the University Council regarding changes/amendments to the Statute.

11. Legislative Compliance

The University is required to manage its policy documentation within a legislative framework. The legislation directing this statute is the:

Crown Entities Act 2004

Education Act 1989

Public Finance Act 1989

Victoria University of Wellington Act 1961

The University must comply with Section 200 of the Education Act 1989, which prescribes that:

(i) The Council of an institution may establish, maintain and operate bank accounts in the name of the institution at any registered bank or any registered building society with which a Crown entity may establish, maintain, or operate a bank account under section 158 of the Crown Entities Act 2004.

(ii) As soon as is practicable after receiving any money, the Council shall pay it into one or other of the institution's bank accounts.

(iii) The Council or delegated authority shall properly authorise every withdrawal and payment of money from any of the institution's bank accounts.

The following must be paid into a Crown Bank Account:

(i) All interest received from the investment; and

(ii) All money received from the redemption or maturity of the investment; or the sale or conversion of the securities.

i. Borrowing activity

Section 192(4)(d) of the Education Act 1989 states that an institution shall not exercise the power to borrow, issue debentures, or otherwise raise money without the consent of the Secretary to the Ministry of Education.

(i) All projected borrowings are to be approved by the University Council as part of the annual budgeting process or by resolution of Council before the borrowing is implemented.

(ii) All legal documentation in respect to borrowing, investment and financial instruments will be approved by the University's solicitors prior to the transaction being executed.

(iii) The University will not enter into any borrowings denominated in a foreign currency.

ii. Investment activity

(a) The intention is that the University's investment powers are conservative and expected to be risk averse.

(b) The University's authority to invest is governed by Section 203 of the Education Act 1989 and Section 65I (1) and (2) of the Public Finance Act 1989 which prescribes that:

(i) Section 203(4) of the Education Act 1989 provides that the University must invest money in accordance with S65I (1) and (2) of the Public Finance Act 1989.

(ii) Section 65I(1) of the Public Finance Act 1989 permits the investments of any money held in a bank account:

(a) On deposit with a bank (whether in New Zealand of elsewhere) approved by the Minister for Tertiary Education; or

(b) In public securities (as defined under Section 63 of the Public Finance Act); or

(c) In any other securities that the Minister for Tertiary Education may approve.

8 Section 65I (2) of the Public Finance Act 1989 allows the University to:

(ii) Invest money for any period and on any terms that the University thinks fit; and

(iii) Sell, or convert into money, any of its securities.

9 Investing in any other term investments and investments in shares, derivatives, gold, silver or any other commodities require the advance approval of the Minister for Tertiary Education.

10 These restrictions do not apply to University controlled trusts. However the Trustee Act 1956 and the terms of the trust's Trust Deed set out duties of care in relation to investment.

iii. Other

11 In making this Statute Council confirms that for the purposes of section 192(2)(b) the functions contained within this Statute are functions of a kind that:

(i) May conveniently and without disadvantage to the performance of functions characteristic of a University be performed in associated with those functions; and

(ii) Are appropriate for a University.

12. Appendices

Appendix A: Related Legal Entities

Appendix B: Treasury Management Responsibilities

Appendix C: University Council Responsibilities & Delegated Authorities

Appendix D: Approved Financial Instruments

Appendix E: Bank and TEC financial ratios and limits

Appendix F: Treasury Management Reports

13. Approval Agency

University Council

14. Statute Sponsor

Chief Financial Officer

15. Approval Dates

This statute was originally approved on:	21 October 2002
This version was approved on:	25 May 2015
This version takes effect from:	25 May 2015
This statute will be reviewed by:	31 December 2016

16. Contact Person

The following person may be approached on a routine basis in relation to this Statute:

Group Financial Controller
Ext: 4706