Treasury Management Procedure

Section 1 - Executive Summary

(1) The Treasury Management Procedure outlines the University's approach to the management of cash, investment of short and long-term funds and the risk management of treasury transactions, and should be read in conjunction with the Investment Policy.

Section 2 - Purpose

(2) The purpose of this procedure is to provide a clear framework for managing the objectives and risks associated with undertaking treasury management functions, specifically in relation to:

a. minimising the cost of debt, and maximising returns on investments, within prudent risk parameters;
b. identifying and effectively managing financial risk; and
c. prohibiting speculative treasury decisions.

Section 3 - Scope

(3) This procedure applies to the management of all cash and investments of the University, as managed by Financial Services.

Section 4 - Audience

(4) This Procedure should be read and understood by Council members, Finance & Infrastructure Committee members, Executive Leadership Team members and University staff involved with the treasury function for the University.

Section 5 - Definitions

(5) In the context of this document:

Defined Term	Meaning
APRA	Australian Prudential Regulated Authority
Bank guarantee	A promise from a commercial bank that it will assume liability if contractual obligations are not met.
Capital Management Plan (CMP)	The formalised University KPI's and thresholds to manage financial risks relating to University capital.
Default	The failure to repay financial investments or debts.
Financial institution	A company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange.
Insolvency	When a Financial Institution can no longer meet their financial obligations.

Defined Term	Meaning
Volatility	The degree of variation of a trading price series over time.

Section 6 - Principles

(6) The principle of this procedure is the management of risks associated with treasury functions, including but not limited to:

a. credit risk
b. funding and refinancing risk
c. interest rate risk
d. foreign exchange risk; and
e. short-term liquidity risk

Section 7 - Treasury Management

(7) Treasury management is managed by Financial Services with oversight by the Chief Financial Officer. Treasury management activities including daily cash flow management, investment of short and long-term funds, foreign exchange transactions; and the transaction, implementation and risk management associated with investment and credit arrangements. These activities are required to support the University in meeting its financial sustainability and long-term strategic objectives.

Section 8 - Credit Risk Framework

(8) In the context of this procedure credit risk is the risk of potential loss arising from default or insolvency of a financial institution. The University's credit risk arises from transactions with financial institutions.

(9) The University maintains a credit risk framework and sets credit exposure limits to financial institutions based on external credit ratings to manage exposure to credit risk. The maximum permitted credit exposure to a financial institution for the University utilises current external credit ratings for individual financial institutions published by Standard and Poor's (S&P). These ratings provide the University with an indicator of underlying credit risk which is then used to inform portfolio settings to:

a. balance exposure to a diverse range of institutions including institutions in the local communities of the Hunter and Central Coast;
b. maximise portfolio returns; and
c. balance exposure to inappropriate levels of credit risk.

(10) A credit exposure is permitted based on the respective limits as detailed in the table below:

S&P Rating (Long-Term)	Maximum Portfolio Exposure	Maximum Term (Years)	Maximum Exposure to Any One Institution
AAA (+or-); AA+; AA	100%	3	50%
AA-; A(+or-)	60%	2	25%
BBB+	30%	1	10%

S&P Rating (Long-Term)	Maximum Portfolio Exposure	Maximum Term (Years)	Maximum Exposure to Any One Institution
BBB & BBB-	20%	1	5%
Unrated but APRA regulated	10%	1	5%

(11) Where returns are equal the University will preference higher S&P rated providers to the extent that maximum exposure limits are not exceeded.

Section 9 - Interest Rate Risk

(12) Interest rate risk is the impact of volatility in net interest income / expense on the financial position of the University.

(13) Interest rate risk exposure (income) is monitored on a monthly basis to assess the impact of interest rate changes on investments.

(14) The cost of debt, considering total value for money of the arrangement, will be managed at inception via completion of a competitive tender process to take on or renew a debt facility.

(15) The cost of debt will be managed during the term of the debt instrument by assessing any available interest rate options to minimise the financing costs as allowed in the relevant contract.

(16) Interest rate movements are reflected in the assumptions underpinning the budget and forecast process.

Section 10 - Foreign Exchange Risk

(17) Foreign exchange risk is the risk associated with movements in currency exchange rates which may impact the University's financial results.

(18) This risk is managed through the Foreign Exchange Risk Policy and Foreign Exchange Risk Procedure, designed to minimise the risk of significant cost from exposure to currency movements when the University is required to transact in a foreign currency.

Section 11 - Short Term Liquidity Risk

(19) Short term liquidity risk is the risk that available cash is insufficient (or held in insufficiently liquid instruments) to enable the University to make payments, including both anticipated and unexpected, as they become due.

(20) Financial Services ensures the University has sufficient access to available cash through cash flow management, updated for each budget and forecast period and monitored weekly.

(21) The University utilises unsecured overdraft facilities where the cost of the overdraft is deemed more economical than drawing down on other cash holdings for short periods. Overdraft facilities are utilised within approved delegations.

(22) The cashflow includes expected capital expenditure required throughout the budget/forecast period.

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Section 12 - Internally Managed Fixed Interest (IMFI)

(23) The University will maintain between 15% and 30% of the University's total financial investment portfolio funds in Internally Managed Fixed Interest (IMFI) investments. The target return on the portfolio of these deposits is to equal or exceed the Bloomberg Ausbond Bank Bill Index return over a 12 month period.

(24) The capital budget is set annually and is a component of the University budget. Once the University budget is approved for a period, the spread of funds across rating categories will be determined using the percentage parameters in Section 8 of this Procedure. The portfolio spread devised at the time of the approved budget establishes the maximum dollar limit for deposits in each rating category for the budget year. All renewals and new investments must be made within these dollar limits.

(25) Approved fixed-interest financial instruments are:

a. Term deposits
b. Negotiable certificates of deposit
c. At-call accounts; and
d. Notice Accounts.

(26) Fixed interest investments are established within credit exposure limits set by this procedure.

Section 13 - University Investment Portfolio

(27) The University invests available economic capital in external investments as defined by the Investment Policy. Financial Services work with the appointed Investment Portfolio Manager to comply with the Investment Policy and to execute transactions to ensure the short-term liquidity and IMFI processes are maintained, in accordance with approved delegations.

Section 14 - Bank Guarantees

(28) The University secures appropriate levels of bank guarantees to meet its contractual requirements. Bank guarantees are managed by Financial Services and reviewed on a regular basis to ensure appropriate levels of guarantee are maintained.

Section 15 - Related Documents

(29) Investment Policy

(30) Foreign Exchange Risk Policy

(31) Foreign Exchange Risk Procedure

(32) Debt Management Procedure.

Status and Details

Status	Current
Effective Date	11th March 2024
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Responsible Executive	Michael Di Rienzo Chief Financial Officer
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Glossary Terms and Definitions

"University" - The University of Newcastle, a body corporate established under sections 4 and 5 of the University of Newcastle Act 1989.

"Risk" - Effect of uncertainty on objectives. Note: An effect is a deviation from the expected, whether it is positive and/or negative.

"Risk management" - The co-ordinated activities of assessing, controlling, monitoring, and reviewing risk in the pursuit of the University's objectives.

"Staff" - Means a person who was at the relevant time employed by the University and includes professional and academic staff of the University, by contract or ongoing, as well as conjoint staff but does not include visitors to the University.

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