OTAGO POLYTECHNIC COUNCIL POLICY		Number: CP0011.05
Title:	**Treasury Management**	
Baldrige Criteria:	**Operations**	
Chief Executive Approval:	Effective Date: **3 August 2018**	Review Date: **1 July 2019**
Previous Policy No:	**MP0302**	Status:
Contact Authority:	**Secretary to Council**	

Purpose

The purpose of the Treasury Management Policy is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Otago Polytechnic to promote prudent, effective and efficient financial management and to set out the treasury function, framework and related policy guidelines within which liquidity risk, cash and investments are managed by the Polytechnic.

All staff must understand their responsibilities and adhere to the terms of this Policy.

Background

Otago Polytechnic is a risk averse organisation and therefore seeks to minimise risk arising from its treasury activities. It recognises that the appropriate management of treasury matters within a defined framework will both benefit and protect the organisation.

Treasury activity that may be construed as speculative in nature is expressly forbidden.

Statutory Compliance

The Polytechnic is required to comply with all relevant legislation including:

- Crown Entities Act 2004 and all subsequent amendments
- Education Act 1989 and all subsequent amendments
- Public Finance Act 1989 and all subsequent amendments

Policy and Procedures

1. Full compliance to the policy should be achieved within six months of the policy approval date.

2. SCOPE

2.1. The Policy applies to all Otago Polytechnic Council Members, Staff and Contractors.

2.2. Treasury management activities and treasury risks are defined as:

2.2.1. Borrowing;

2.2.2. Cash management;

2.2.3. Interest rate risk management;

2.2.4. Foreign exchange risk management;

2.2.5. Short term investment.

3. OBJECTIVES

3.1. The objective of this Policy is to control and manage costs and treasury investment returns and safeguard financial resources.

3.2. The Polytechnic will:

3.2.1. Minimise costs and risks in the management of its borrowing;

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

3.2.3. Ensure compliance with TEC and external borrowing approval requirements;

3.2.4. Minimise exposure to adverse wholesale interest rate movements;

3.2.5. Proactively manage interest rate risks;

3.2.6. Arrange and structure long-term funding at the lowest achievable interest margin from debt lenders;

3.2.7. Optimise flexibility and spread of debt maturity;

3.2.8. Invest, borrow and transact interest rate risk management instruments within an environment of control and compliance;

3.2.9. Monitor, evaluate and report on treasury compliance and performance in an accurate and timely manner to the Chief Executive, Finance and Audit Committee and the Council;

3.2.10. Minimise exposure to counterparty credit risk by dealing with and investing in credit worthy counterparties;

3.2.11. Ensure that all statutory requirements of a financial nature are adhered to;

3.2.12. Ensure adequate internal controls exist to protect the Polytechnics' financial assets, prevent unauthorised transactions, and project a professional image of financial and management control.

4. BORROWING ACTIVITY: the following borrowing criteria apply:

4.1. All facilities and borrowing limits are to be approved by the Otago Polytechnic Council ("Council") as part of the annual budgeting process or by resolution of Council before the borrowing is implemented.

4.2. The Council approved borrowing amount will form the threshold limit of borrowings for management while drawdown amounts must be in line with delegated authority limits, the exact timing and amount of drawdowns will be at the discretion of management.

4.3. All legal documentation in respect to borrowing, investment and financial instruments will be approved by the Polytechnic's solicitors prior to execution.

4.4. The Polytechnic will not enter into any borrowings denominated in a foreign currency.

4.5. The Polytechnic will comply with TEC, statutory and banking covenant requirements for borrowing.

5. RESPONSIBILITIES

5.1. Council reviews this policy and the annual financial budget (including borrowing).

5.2. Council has ultimate responsibility for ensuring that there is an effective framework for the management of treasury risks and will determine the level and nature of risks that are acceptable, given the underlying objectives of the Polytechnic.

5.3. Council delegates overall responsibility for treasury management to the Chief Executive (CE) in line with policy *CP0005 Delegations from Council to the Chief Executive.*

5.4. The CE delegates management responsibility to the Chief Operating Officer (COO) in line with policy *MP0303 Authorities and Delegations from Chief Executive.*

5.5. The COO is responsible for the overall management of treasury within the Polytechnic. For listed responsibilities see *Appendix 1*. The COO delegates day-to-day operations to the Director Business Services/Deputy Chief Operating Officer (DCOO).

5.6. The DCCO is responsible for the day-to-day management of treasury-related risks. For listed responsibilities see *Appendix 1*.

5.7. The Senior Financial Analyst (FA) assists the DCOO with execution of hedging decisions and the day-to-day monitoring of the Polytechnic's borrowing, liquidity, foreign exchange and investment positions relative to the Council-approved policy limits and management's delegated authorities. For listed responsibilities see *Appendix 1*.

5.8. The Accounts Officer (AO) is responsible for the checking and transactional processing of interest rate / foreign exchange hedging, investment and cash management transactions to separate the line of responsibilities and achieve segregation of duties away from the FA and DCOO. For listed responsibilities see *Appendix 1*.

6. DELEGATION OF AUTHORITY AND AUTHORITY LINES

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

6.2. 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 Polytechnic.

6.3. Whenever a person with delegated authority on any account or facility leaves the Polytechnic, 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.

6.4. Delegated authority limits are specified in *Appendix 2*.

7. DEBT MANAGEMENT

7.1. Borrowing Objectives - The Polytechnic's borrowing objectives, while complying with bank lenders financial ratios and limits, are to balance:

7.1.1. Providing ongoing liquidity and funding support to enable the Polytechnic to achieve its education objectives and financial strategy;

7.1.2. Minimising costs and risks in the management of borrowing;

7.1.3. Arranging and structuring long-term borrowing at the lowest achievable interest margins and fees;

7.1.4. Optimising flexibility and spread of debt maturities;

7.1.5. Minimising funding risk.

7.2. **<u>Liquidity / Funding risk</u> -** control limits are as follows:

7.2.1. Sufficient liquid funds (cash and cash equivalents) and/or undrawn committed borrowing facilities are available for at least 108% of the 12 month forecast peak net funding requirement. Approved cash/treasury investments are set out in Appendix A.

7.2.2. Funds from related parties should not be included within the liquidity measure unless formal documentation of a committed debt facility/loan is executed between the parties.

7.2.3. The maturity profile of the total committed funding in respect to all external borrowing, bank loans, term debt and committed bank facilities, is to be controlled by the following system and applies when external core debt exceeds $10 million:

Debt Tenor	Minimum (% of total debt)	Maximum (% of total debt)
0 to 2 years	*0%*	*60%*
2 to 5 years	*20%*	*60%**
5 to 10 years	*0%*	*40%**

**This limit can increase to 100% where facilities are flexible, with ability to repay with less than 30 days' notice without penalty (i.e. zero-cost right to terminate / repay).*

7.2.4. 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 Consent to Borrow or Ministerial Determination of Exempt Borrowing (whichever is applicable).

7.2.5. Approved borrowing instruments are set out in *Appendix 3.*

7.2.6. The maximum borrowing term is 10-years.

7.2.7. A maturity schedule outside these limits will require specific Council approval.

7.3. **<u>Financial Arrangements</u>**

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

7.3.2. The Polytechnic has entered into a Multi Option Credit Line (MOCL) agreement with its bank (Westpac New Zealand Limited) in order to ensure that funds are available to meet debt obligations.

7.4. **Borrowing ratios and limits**

7.4.1. Borrowing will be managed within the financial ratios and limits required by bank lenders and the TEC. Financial ratios and limits are outlined in *Appendix 4.*

7.4.2. The FA ensures that these requirements are complied with at all times.

7.4.3. Where these limits are likely to be exceeded, notification to FAC, Council, TEC and bank lenders is necessary.

7.5. **Security arrangements**

7.5.1. Subject to clause 7.5.3 the Polytechnic's borrowing, interest-rate and foreign exchange risk management activities will be unsecured by way of a Deed of Negative Pledge.

7.5.2. Financial covenants may include ratios related to gearing and interest coverage.

7.5.3. The Polytechnic does not offer security by way of a charge over land and buildings. Physical assets may be secured where:

- There is a direct relationship between the borrowing and the purchase or construction of the asset, which it funds, and
- The Polytechnic considers a charge over physical assets to be appropriate, and.
- Any pledging of physical assets must comply with all Treasury Management Policy, statutory and regulatory requirements and
- Bank lending may dictate a maximum percentage of specific assets (as a percentage of total assets) that specific security may be given e.g.15% and
- Approved by Council.

8. SHORT TERM INVESTMENT

8.1. **General Framework**

8.1.1. The Polytechnic will utilise its treasury investment portfolio to meet operational funding requirements. Investment funds are sourced from operating cash surpluses arising from normal operations. The portfolio is short-term in nature given the need to fund the operational and capital spending requirements.

8.1.2. Section 203(4) of the Education Act 1989 provides that the Polytechnic must invest funds in accordance with s65I (1) and (2) of the Public Finance Act 1989.

8.1.3. The intention that the Polytechnic will exercise its power to invest in a manner that is conservative and risk averse.

8.1.4. The Polytechnic recognises that all investments held, should be low risk which generally means lower returns.

8.2. **Investment objectives -** Treasury investments are arranged to provide sufficient liquid funds for planned expenditures and allow for the payment of obligations as they fall due.

8.3. **Related entities and subsidiaries** - Under the Public Finance Act, s65I (1), the Polytechnic 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.

8.4. **Treasury investment maturity limits**

8.4.1. The Polytechnic will hold at least $50,000 NZD in the current account, with surplus cash automatically swept/offset to an interest bearing overnight call account. Alternatively the Polytechnic will arrange with its bankers for the call account interest rate to be paid on all current and call bank accounts.

8.4.2. $500,000 NZD should always be available within 30 days.

8.4.3. To ensure the matching of treasury investments to expenditure, investment terms are no more than 12 months. The control limits are as follows:

Period	Minimum	Maximum
0 to 3 months	*50%*	*100%*
3 to 12 months	*0%*	*50%*

9. RISK RECOGNITION / IDENTIFICATION / MANAGEMENT:

9.1. **Interest rate risk recognition**

9.1.1. 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, returns and feasibilities.

9.1.2. The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of borrowing costs. High levels of certainty around borrowing costs over multiple years are to be achieved through the pro-active management of underlying interest rate exposures.

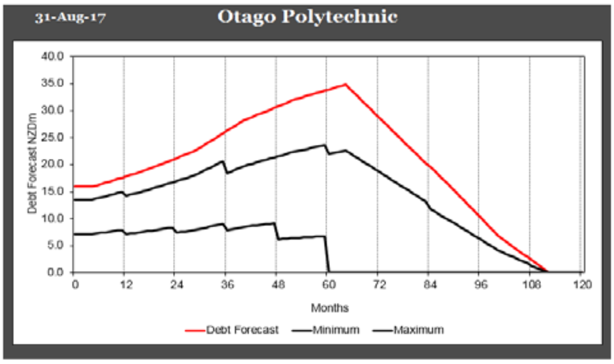
9.2. **Borrowing interest rate limits**

9.2.1. The following risk control limits will only apply where 12 month forecast core external debt exceeds $10 million. Exposure to interest rate risk is managed and mitigated through the risk control limits below. The Polytechnic's core external debt should be within the following fixed/floating interest rate risk control limits (forecast debt amounts have been added to illustrate position):

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)

Debt Period Ending	Debt Amount (NZDm)	Minimum Fixed	Maximum Fixed	Actual Fixed	Compliant (Y/N)
Current	*15.9*	*45%*	*85%*		
Year 1	*18.8*	*40%*	*80%*		
Year 2	*22.4*	*35%*	*80%*		
Year 3	*28.2*	*30%*	*70%*		
Year 4	*32.1*	*20%*	*70%*		
Year 5	*34.8*	*0%*	*65%*		
Year 6	*25.6*	*0%*	*65%*		
Year 7	*16.5*	*0%*	*60%*		
Year 8	*6.9*	*0%*	*60%*		
Year 9	*0*	*0%*	*55%*		
Year 10	*0*	*0%*	*50%*		

9.2.2. The resulting interest rate risk profile limits based on the existing forecast debt profile is represented as follows:



- "Fixed Rate" is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.
- "Floating Rate" is defined as an interest rate repricing within 12 months.
- "Core debt" is defined as drawn debt not expected to be repaid within the next 12 months (i.e. excluding working capital).
- The percentages are calculated on the rolling 12 month forecast core debt amount calculated by management (signed off by the COO). This allows for pre-hedging in advance of projected physical drawdown of new/refinanced debt. When approved forecasts are changed, the amount of fixed rate/hedging in place may have to be adjusted to ensure compliance with Policy minimums and maximums.
- Floating rate debt may be spread over any maturity out to 12 months. Approved financial instruments are listed in *Appendix 3*.

9.3. Foreign exchange risk

9.3.1. Foreign exchange exposures are recognised and managed when total monthly net payments or individual currency amount exceeds NZD 100,000*.* For details see *Appendix 5*.

9.4. Counterparty credit risk

9.4.1. 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+ (Crown Entities Act requirement) or above, or a short-term rating of A-1 or above.

9.4.2. Counterparty credit limits have been determined by the following instrument weightings:

- Investments (e.g. Bank Deposits) = Transaction Notional x Weighting 100%.
- Interest Rate Risk Management (e.g. swaps, FRAs) = Transaction Notional x (Maturity (years) x 3%).
- Foreign Exchange = Transactional face value amount x (the square root of the Maturity (years) x 15%).

9.4.3. Approved counterparties are listed in *Appendix 6*.

9.4.4. Credit ratings should be reviewed by the FA on an ongoing basis and in the event of a credit rating downgrade should be immediately reported to the DCOO and assessed against policy limits.

9.5. Operational risk

9.5.1. Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls.

9.5.2. Operational risk is minimised through the adoption of all requirements of this policy.

9.6. Segregation of duties

9.6.1. 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.

9.6.2. The risk will be minimised by the following process:

- The Accounts Officer (AO) reports directly to the COO on any treasury irregularities.
- There is a documented approval process for cash management, borrowing, treasury investment and interest/foreign exchange rate activity.
- The Accounts Officer (AO) reports immediately to the COO if Policy limits are breached. Where the irregularity relates to a COO approved transaction, report to the CEO directly.

9.7. **Legal risk**

9.7.1. 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 in legislation.

9.7.2. While legal risks are more relevant for banks, the Polytechnic may be exposed to such risks, in the event that they are unable to enforce its rights due to deficient or inaccurate documentation.

9.7.3. The Polytechnic will seek to minimise this risk by:

- Ensuring all Polytechnic authorities in regards to treasury transactions are approved as required by legislation.
- The use of standard dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.
- The use of expert advice.

9.8. **Agreements**

9.8.1. 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.

9.9. **Financial and other obligations**

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

9.9.2. The Polytechnic must comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

9.9.3. Bank lending and TEC ratios and covenants are included within Appendix 4.

10. CASH MANAGEMENT

10.1. The FA is responsible for carrying out day-to-day cash management activities.

10.2. All cash inflows and outflows pass through bank accounts controlled by the finance function.

10.2.1. The FA will calculate and maintain rolling cash flow forecasts. These cash flow forecasts determine the Polytechnics' borrowing requirements and surpluses for investment. Forecasts are linked to approved financial budgets and plans where relevant.

10.2.2. On a daily basis the FA electronically downloads all bank account information.

10.2.3. The FA, co-ordinates all daily cash inflows and outflows with the objective of managing the cash position within approved parameters.

10.2.4. The FA, upon approval of the COO/DCOO executes all cash management and treasury investment transactions.

10.2.5. Sufficient liquid funds (cash and cash equivalents) and/or undrawn committed borrowing facilities are available for at least 108% of the 12 month forecast peak net funding requirement.

10.3. To ensure an efficient and effective cash management function the FA:

10.3.1. Matches future cash in/out flows to smooth the overall timeline profile.

10.3.2. Minimises fees and bank charges by optimising bank account/facility structures.

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

10.3.4. Reports detailed actual cash flows during the month compared with those budgeted.

10.3.5. Maintains accurate cash flow forecasts.

11. TREASURY REPORTING

11.1. Treasury reporting must achieve coverage of the following major information/reporting objectives:

11.1.1. Risk exposure position: The Polytechnics' 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.

11.1.2. Risk management performance: Actual performance achieved against agreed benchmark rates.

11.1.3. Counterparty risk position.

11.1.4. Policy compliance: Reports that confirm conformity to Policy risk control limits and report non-compliance of Policy by exception.

11.2. Type of report, prepared by, and recipient are listed in *Appendix 7*.

12. ESCALATION PROCESS

12.1. All breaches of policy requires immediate notification to the CEO and the Chair of the FAC and reporting to Council at the next Council meeting.

12.2. The reporting will include the cause of the breach and mitigating actions taken to correct.

Related Documents

Appendix 1: RESPONSIBILITES
Appendix 2: DELEGATED AUTHORITY LIMITS
Appendix 3: APPROVED FINANCIAL INSTRUMENTS
Appendix 4: BANK AND TEC FINANCIAL RATIOS AND LIMITS
Appendix 5: FOREIGN EXCHANGE RISK
Appendix 6: APPROVED COUNTERPARTIES
Appendix 7: TREASURY REPORT

CP0005 Delegations from Council to the Chief Executive
MP0303 Authorities and Delegations from Chief Executive

Approved by Council

Date: 3 August 2018

Appendix 1: RESPONSIBILITES

Chief Operating Officer (COO)

- In conjunction with the Executive Leadership Team (ELT), develop the annual financial budget and long-term financial strategy/plans
- Manage the long-term financial position as outlined in the financial plan/strategy.
- Ensure policy limits, management procedures and policies are implemented and complied with in accordance with the Policy.
- Primary responsibility for managing bank relationships. Negotiation of bank funding and financial market dealing facilities if/when applicable.
- Recommend changes to the Policy to the FAC.
- Refinancing of existing bank loan/facilities upon obtaining Council approval.
- Approve borrowing, interest rate risk management and cash management strategies within approved risk control limits and delegated authority limits.
- Approve any allowable foreign exchange hedging within approved risk control limits and delegated authority limits.
- Sources external advice in regard to foreign exchange transactions greater than $100,000.
- Propose new counterparties and counterparty limits to Council.
- Conduct an annual review of the Policy, treasury procedures and counterparty limits.
- Approve all amendments to the Polytechnic's records arising from checks to external bank counterparty confirmations.
- Responsible for providing timely, high quality information on key financial and treasury activities of the Polytechnic to FAC and the Council (detailed in Appendix D).

Director Business Services/Deputy COO - Responsibilities include:

- Reporting to the COO on treasury matters. Advise the CEO and COO of significant treasury events.
- Executing borrowing, interest rate risk management, cash management and foreign exchange risk management transactions in accordance with approved risk control limits and delegated authority.
- Primary responsibility for monitoring risk positions within approved risk control limits.
- Propose new borrowing requirements and strategies to the COO for consideration and approval.
- Approving borrowing, interest rate risk management, cash management and foreign exchange risk management transactions in accordance with approved risk control limits and delegated authority.
- Review treasury reporting from the FA and provide regular reporting to the COO.
- Monitor and review the performance of the treasury function in terms of achieving its objectives.
- Provide reports detailing appropriate forecast cash flows during the month and comparing actuals to those budgeted.
- Ensure efficient cash management through improvement to accurate forecasting using appropriate modelling.
- To take into account any financial considerations relevant to any new subsidiary/associate entities added to the Otago Polytechnic Group.
- Review and make recommendations on all aspects of the Policy to the COO, including dealing limits, approved instruments, counterparties, and general guidelines for the use of approved financial instruments.

Senior Financial Analyst (FA) - Responsibilities include:

- Monitor treasury exposures on a regular basis, including current and forecast cash position, cash and investment portfolio, interest rate risk profile and foreign exchange rate exposures.
- Design and recommend borrowing, liquidity, cash management and risk management strategies.
- Monitor credit ratings and credit exposure amount of approved counterparties.
- Complete the short and medium-term cash flow forecasts.
- Account for all treasury transactions in accordance with legislation and generally accepted accounting principles.
- Generate treasury reports.
- Check compliance against policy limits and prepare treasury reports.
- Ensure internal communication channels and systems for identifying, notifying and recognising treasury exposures are efficient, accurate and working.
- Arranging pricing and deal details with banks for treasury investments or interest rate instruments as requested by the DCOO or COO
- Executing day-to-day cash management, interest rate and foreign exchange transactions with the Polytechnic's bankers in accordance with approved risk control limits and delegated authority of the FA. In the event that the daily limit exceeds the FA delegated authority, authority must be granted by the COO or CEO respectively.
- Execute treasury transactions (borrowing, interest rate risk management and cash management transactions in accordance with set limits and authorities).

Accounts Officer (AO) - Responsibilities include:

- Settlement of investment, foreign exchange and interest rate management transactions.
- Check all treasury deal confirmations received from bank counterparties against internal deal documentation and report any irregularities immediately to the COO. Where the irregularity relates to a COO approved transaction, report to the CEO directly.

Appendix 2: DELEGATED AUTHORITY LIMITS

Activity	Delegated authority	Parameters
Approving and reviewing Treasury Management Policy	Council	Unlimited (subject to statutory limitations)
Approve borrowing programme	Council	Subject to statutory and TEC approvals/ limitations
Acquisition/disposition of assets (non-financial)	Council	Subject to statutory approvals/ limitations
Approval to charge assets as security	Council	Subject to statutory and TEC approvals/ limitations
Transfer/register security	Council	Subject to statutory and TEC approvals/ limitations
Approving transactions outside Policy	Council	Subject to statutory and TEC approvals/ limitations
Approve treasury counterparties	Council	N/A
Approve new borrowing and bank loans/facilities	Council	Per borrowing resolution
Re-financing existing borrowing and bank loans/facilities	COO	In accordance with the Policy's risk control limits
Authorising signature list	COO	N/A
Opening/closing bank accounts	COO	N/A
Overall day-to-day treasury management	CEO	In accordance with the Policy's risk control limits
Approve borrowing and lending arrangements from/to related entities	COO	Subject to statutory limitations
Approving financial arrangements between third parties including hire purchase and lease transactions	COO	Subject to statutory limitations
Adjust debt interest rate position	COO	In accordance with the Policy's risk control limits
Managing debt/investment maturity profile	COO	In accordance with the Policy's risk control limits
Annual review of Policy	COO	N/A
Ensuring compliance with Policy	COO	N/A
Approval of short-term investment of funds (Daily limit)	CEO COO DCOO FA	Council – unlimited (subject to statutory limitations) CEO <$10m (12 months) COO <$10m (12 months) DCOO <$7m (12 months)
Approval of term borrowings – Budgeted (Daily limit) The limit excludes interest rate rollovers on new and existing drawn debt.	CEO COO DCOO	Council – unlimited (subject to statutory limitations) CEO <$10m (up to 10-years) COO <$5m (up to 10-years)
Approval of term borrowings – Not budgeted (Daily limit) Although not budgeted still within approved facility limits	CEO COO DCOO	Council – unlimited (subject to statutory limitations) CEO <$2.5m (up to 10-years) COO <$1m (up to 10-years)
Approval of working capital borrowing (Daily limit) The limit excludes interest rate rollovers on new and existing drawn debt.	CEO COO DCOO FA	Council – unlimited (subject to statutory limitations) CEO <$5m (<90 days) COO <$5m (<90 days) DCOO <$3m (<90 days)
Hedging of Interest Rate Risk (Daily limit) The limit excludes interest rate rollovers on existing swap transactions.	CEO COO DCOO	Council – unlimited (subject to statutory limitations) CEO <$10m (up to 10-years) COO <$5m (up to 10-years)
Hedging of foreign exchange exposures (Daily limit)	CEO COO DCOO	Council – unlimited (subject to statutory limitations) CEO <$0.5m (12 months) COO <$0.25m (12 months)

Appendix 3: APPROVED FINANCIAL INSTRUMENTS

Category	Instrument
Working capital and core borrowing	• Bank overdraft • Committed bank cash advance/revolving facilities • Bank term loans and term loan facilities • Medium Term Notes (MTN) and Floating Rate Notes (FRN) (up to 5-years) • Related party borrowings (up to 12 months)
Cash and treasury investments (less than 12 month maturities)	• Bank bills (up to 90 days) • Bank term/call deposits • Registered Certificates of Deposit (RCD)
Interest rate management (borrowing only)	Forward rate agreements ("FRAs") on: • Bank bills Interest rate swaps including: • Forward start swaps • Swap extensions and shortenings Interest rate options on: • Bank bills (purchased caps and one for one collars) • Interest rate swaptions (purchased swaptions and 1:1 collars only) • Floating and fixed rate bank loans
Foreign exchange management	• Spot foreign exchange • Forward exchange contracts (including par forwards) • Foreign currency deposit account • Purchased options and collars (1:1 collar structures)

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved. Ministerial approval may also be required (e.g. finance leases).

Use of approved financial instruments (subject to statutory and TEC requirements):

- Interest rate and foreign exchange options must not be sold outright.
- 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Interest rate options with a maturity date beyond 12 months that have a strike rate higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate/hedged percentage calculation.

Appendix 4: BANK AND TEC FINANCIAL RATIOS AND LIMITS (per existing arrangements)

Bank lenders ratio:

Measure	Limit
Total Debt to Total Debt plus Equity Ratio (total debt to total debt plus total equity)	• Ratio cannot exceed 35% at any point in time
Earnings to Funding Costs (consolidated net profit before funding costs, income tax and extra ordinaries[1]/interest, charges and fees related to funding)	• Earnings for each financial year are not less than 2.0x Otago Polytechnics Funding Costs for that financial period

TEC Financial Covenants:

Measure	Limit
Current Maximum Term Borrowing Limits	• 1 January 2017 to 31-December 2017 NZD 20 million • 1 January 2018 to 31-December 2018 NZD 20 million • 1 January 2019 to 31-December 2019 NZD 20 million • 1 January 2020 to 31-December 2020 NZD 17 million • 1 January 2021 to 31-December 2021 NZD 14 million • 1 January 2022 to 31-December 2022 NZD 10 million • 1 January 2023 to 31-December 2023 NZD 6 million • 1 January 2024 to 31-December 2024 NZD 3 million • 1 January 2025 to 31-December 2025 NZD 0 million
Leverage Ratio (Net Debt/EBITDA2) (interest bearing liabilities minus cash or cash equivalents/EBITDA)	• No more than 3.5x during the period (January 2017 – 31 December 2025) the Consent is in place
Debt Equity Gearing Ratio (bank borrowing plus finance lease borrowing/ bank borrowing plus finance lease borrowing plus equity)	Ratio of 20% or less during the period (January 2017 – 31 December 2025) the Consent is in place
Interest Cover Ratio (EBIT[3] before unusual and non-recurring items/ interest paid)	• Not less than 3.0 x for each year the Consent remains in place
Net Surplus Ratio (net surplus before unusual and non-recurring items to total revenue)	• At least 2.5% in each year the Consent remains in place
Cash Flow from Operations Ratio (operating cash receipts/operating cash payments)	• Ratio of at least 111% each year the Consent remains in place
Liquidity Ratio (cash and cash equivalents*; plus any undrawn committed borrowing facilities that would not result in a breach if drawn down / cash outflow from operations)	• At least 8.0% or higher (measured against the 12 month forecast peak net funding as long as the Consent remains in place)

The above ratios will be measured against year-end audited financial results at the Otago Polytechnic Consolidated Group level.

In addition to the above Financial Covenants, the TEC consent to borrow provides for Monitoring Covenants, which, when triggered by actual or forecast performance, The Polytechnic will supply a paper to FAC covering the issue. The Polytechnic will also supply TEC a copy of this paper and the minutes from the meeting indicating the FACs response.

*When referring to cash and cash equivalents, we would typically call these liquid funds, but for consistency with the TEC covenants, we will call these cash and cash equivalents.

Cash and cash equivalents are unencumbered assets defined as being:

- Overnight Bank cash deposits
- Wholesale/retail bank term deposits no greater than 30 days
- Bank issued RCD's less than 181 days.

Statutory requirements

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

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

- All interest received from the investment; and
- All money received from the redemption or maturity of the investment; or the sale or conversion of the securities.

Under the Education Act 1989, the Polytechnic is also required to target and maintain a number of financial metrics / ratios subject to the Tertiary Education Commission (TEC) definitions. The TEC's reporting regime, the Tertiary Education Institution Financial Monitoring (TEIFM) return focuses on a range of financial targets, of which several are directly applicable to the management of treasury risks. The Polytechnics' consent to borrow articulates the specific Financial and Monitoring Covenants which apply to the Consent granted.

[1] Extra ordinaries are items that are not expected to occur frequently and are distinct from your ordinary operations
[2] Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)
[3] Earnings Before Interest and Tax (EBIT)

Appendix 5: FOREIGN EXCHANGE RISK

- Foreign exchange risk is defined as the adverse impact on the NZD expenses and asset purchases (e.g. costs related to international students, purchase of library supplies, IT equipment etc.) from foreign exchange rate movements.
- Foreign exchange exposure based on continually updated forecast payments is recognised on the basis of:
    - Forecast payments, based on 12-month rolling payment forecasts for each currency, reviewed and updated quarterly or as appropriate and incorporating materiality thresholds (total annual net foreign currency exposures greater than NZD 2.5million and individual net foreign currency exposures greater than NZD 100,000). Any foreign exchange receipts are netted against same currency payments.
    - Value in currency of payment.
    - Month or date of purchase.
    - Value expressed in NZD calculated at market exchange rates prevailing on the day of recognition.
- Foreign exchange exposures are recognised and managed when total monthly net payments or individual currency amount exceeds NZD 100,000.

Appendix 6: APPROVED COUNTERPARTIES

The counterparty must have received formal ministerial approval as required by the Crown Entities Act 2004 and meet the criteria set out in the section 158(1) of the Act. Approved counterparty credit limits are as follows:

Counterparty / Issuer	Minimum long term / short term credit rating	Investments maximum per counterparty ($m)	Risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)*	Total maximum per counterparty (as % of equity - $98m)*
NZ Government	N/A	Unlimited	none	Unlimited	Unlimited
ANZ	AA-/ A-1	10.0	10.0	20.0	20%
ASB	AA-/ A-1	10.0	10.0	20.0	20%
BNZ	AA-/ A-1	10.0	10.0	20.0	20%
WPC	AA-/ A-1	10.0	10.0	20.0	20%
Kiwibank	A/A-1	5.0	5.0	10.0	10%
This summary list will be expanded on a counterparty named basis which will be authorised by the Council					

- See 9.4.2 for instrument weightings

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.
*The total maximum per counterparty (either as $m or % of equity) that is lower should be used.

Appendix 7: TREASURY REPORT

The COO is responsible for providing timely, high quality information on key financial and treasury activities of the Polytechnic to Management, the FAC and the Council. These reports will be prepared by the DCOO and FA. The following treasury management reports cover up to date information about:

- Revenue, expenditure assets and liabilities performance against budget
- Current and forecast cash flow position
- Actual and forecast capital expenditure against budget
- Invested funds
- Current and projected borrowings and interest rates
- Any hedging activity including external advice on the same
- Bank governance and compliance with covenants
- Any changes in the credit ratings of the Polytechnics' bankers
- Performance against financial criteria set by government agencies
- Any Policy breaches and mitigating actions; and
- Any other matters that may impact on the financial management, performance or risks of the Polytechnic.

<table>
<tr><th>Report</th><th>Frequency</th><th>Prepared by</th><th>Recipient</th></tr>
<tr><td>Treasury Exceptions Report</td><td>As required</td><td>DCOO</td><td>COO</td></tr>
<tr><td>Treasury Report

Borrowing limits
Funding and Interest Position
Funding facility/usage
New treasury transactions
Cash flow forecast report
Liquidity position/limit
Foreign exchange
Counterparty credit
Financial ratios (TEC and bank)
Investment Schedule
Treasury Exceptions Report</td><td>Monthly</td><td>DCOO / FA</td><td>• Senior management team-(CEO, COO)
• Finance and Audit Committee</td></tr>
<tr><td>Treasury Report

Borrowing limits
Funding and Interest Position
Funding facility/usage
New treasury transactions
Cash flow forecast report
Liquidity position
Foreign exchange
Counterparty credit
Financial ratios (TEC and bank)
Derivative valuations
Treasury performance
Market/strategy commentary/update
Treasury Exceptions Report</td><td>Quarterly or relevant meeting date</td><td>DCOO / FA</td><td>• Finance and Audit Committee
• Council</td></tr>
</table>