Treasury Management procedure

Section 1 - Preamble

(1) This Procedure is effective from 16 November 2023.

Section 2 - Purpose

(2) This Procedure outlines how the University will effectively manage its treasury function and mitigate risks as identified in the Treasury policy.

Section 3 - Scope

(3) This Procedure applies to the Treasury function of the University.

(4) This Procedure does not apply to financial investments monitored by the Investment Committee. These are managed in accordance with the Investment Policy.

Section 4 - Policy

(5) This Procedure is pursuant to the Treasury policy.

Section 5 - Procedure

Management and Mitigation of Liquidity Risk

(6) Treasury, via planning processes including budget, forecast and the long-term financial plan, will consider numerous events that may affect cash flow of the Group and/or put pressure on liquidity.

(7) Fortnightly cash flow projections, including a minimum of thirteen weeks forecast and the details of borrowings and term deposits, will be provided to the Chief Financial Officer.

(8) In the preparing the cash flows the following factors will be analysed and considered:

a. changes in students' enrolments;
b. additional or reduction in revenue streams;
c. new controlled entities, joint ventures, industry engagements;
d. business disruption;
e. capital expenditure;
f. change in government funding;
g. distress in capital markets;
h. distress in the banking sector;

i. change in government policy; and
j. research initiatives.

(9) Daily management of the bank account balances will ensure the required minimum cash balance is maintained.

(10) The minimum cash balance will be determined as equivalent to the fortnightly gross salaries and associated superannuation, PAYG, payroll tax, cash held for Future Fund and controlled subsidiaries cash balances. Any increase or decrease in the minimum cash balance must be approved by the Chief Financial Officer.

(11) The minimum cash balance will incorporate the cash balances across all University bank accounts.

(12) Term deposits are utilised to maximise interest earnings on surplus cash balances. Term deposits are placed in compliance with the guidelines set out in the Investment Governance Framework, including the investment restrictions set out to diversify the investments and mitigate risk. The placement of term deposits must be approved by the Chief Financial Officer.

(13) Compliance and effective use of credit and borrowing facilities may be employed to support minimum cash balances. Approved instruments for credit and borrowing are set out in Section 6 below.

(14) Long-term assets will be financed with long-term liabilities, aligning with the maturity matching principle in liquidity management to maintain a balanced and sustainable financial position.

(15) The annual Financial Plan submission to Council via the Finance and Business Affairs Committee will highlight the likelihood, timing, and extent of borrowings for the upcoming financial year.

(16) A proposal to borrow, outlining the timing, value, required duration, and risk mitigation measures will be submitted to Council via the Finance and Business Affairs Committee for approval prior to undertaking borrowings. The proposal will also outline subsequent reporting of borrowings to Council.

(17) Upon approval by Council to enter into borrowings, a Treasury Committee comprising the Deputy Vice-Chancellor, University Services, Director, Audit, Risk and Business Continuity and Chief Financial Officer will be established to oversee and monitor borrowing activity.

Management and Mitigation of Counter-party Credit Risk

(18) Investments will adhere to the Investment Governance Framework investment restrictions to ensure diversification between financial institutions and term maturities to mitigate and manage counterparty credit risk. The Investment Governance Framework sets out the restrictions on:

a. the list of approved institutions the University can invest with;
b. maximum percentages of investment allowed with each financial institution;
c. maximum levels of investments allowed for different term maturities.

(19) Any new investment, including a rollover or commitment, should not result in a breach of the investment restrictions set out under the Investment Governance Framework even if the breach would result in a higher interest rate/rate of return.

Management and Mitigation of Borrowing and Debt Management Risk

(20) Borrowings will only be arranged with organisations that are judged to have sufficient financial strength to ensure that the funds committed under the facilities will be available as and when they are required by the University in accordance with the loan agreement. The credit rating of the institution must be at Standards and Poor's (S&P) A-1 or above or equivalent.

(21) When external funding is required for new institutional projects, the Chief Financial Officer will review and approve:

a. the level of security for the project;
b. the value of assets already held as security on existing capital projects; and
c. statutory restrictions.

(22) Approved instruments for borrowings are set out in Section 6 below.

Management and Mitigation of Foreign Exchange Risk

(23) Material contracts in foreign currencies should be identified during the annual budgeting process and reported to the Director, University Financials, including the amounts, details of the counterparties and dates for payments/receipts to be hedged using approved hedging instruments.

(24) The material contract threshold will be reviewed annually and set out in the Financial Plan Guidelines.

(25) For all identified material contracts, Treasury will negotiate hedging instruments.

(26) Non-material contracts should be in Australian Dollars ($AUD) where possible to minimise the cost of transactions.

(27) Hedging of more than 100% of underlying exposures and leveraged transactions are not permitted.

(28) A foreign exchange exposure report detailing the following is to be provided to the Director, University Financials on a monthly basis, including an explanation for any variance between the hedge and any underlying exposure greater than 5%:

a. the value of exposures in foreign currency;
b. source of exposures;
c. all hedges of foreign currency exposure;
d. the position against limits detailed in this Procedure; and
e. the mark-to-market value of the exposure and hedges.

(29) The hedging instruments authorised for risk management mitigation are set out in Section 6 below.

Management and Mitigation of Interest Rate Risk

(30) Unfavourable movements in interest rates on interest income earned or interest expense incurred is to be minimised.

(31) The impact of interest rate risk on interest income is managed annually following the Financial Plan process and an assessment of liquidity needs. No active hedging of interest income using derivatives will be performed.

(32) Where the Financial Plan identifies a borrowings requirement, an Interest Rate Risk Management Plan will be developed and submitted to Council along with the proposal for borrowings. The Interest Rate Risk Management Plan will include:

a. interest rate risk exposure assessment
b. strategies for management of the interest rate risk including benefits, costs and accounting implications.

(33) Where a fixed float interest rate arrangement is being extended, the new contract must only be applied on the

date of rollover.

(34) Interest rate risk on borrowings will be managed through approved instruments as outlined in Section 6 below.

Management and Mitigation of Operational Risk

(35) The Chief Financial Officer will ensure that:

a. financial policies and procedures are maintained and kept up to date through annual reviews
b. segregation of duties and internal controls are maintained and reviewed regularly.

(36) Treasury will minimise the number of bank accounts and payment platforms used. Bank accounts and payment platforms and associated signatories will be reviewed on an annual basis.

(37) Regular reviews of access to banking portals, maintenance of access registers and updates to access to be maintained on a regular basis. Staff departing Deakin should have their access removed immediately.

(38) Changes to interfaces into financial institutions must be approved by the Chief Financial Officer on the recommendation of the Director, Finance Services and Support.

(39) Treasury is responsible for ensuring compliance with audit, contractual and statutory requirements.

(40) The Director, University Financials will ensure that appropriate systems and processes are in place to support this compliance with this Procedure.

(41) Any breach of this Procedure must be reported immediately to the Chief Financial Officer and Director, Audit, Risk and Business Continuity.

Review and Reporting

(42) The Chief Financial Officer is responsible for:

a. implementation of this Procedure and reviewing its effectiveness in accordance with the University's Policy Framework
b. reporting annually, or as required, to University Council via the Finance and Business Affairs Committee on the University's treasury activities and any actions required to support a financially sustainable position.

(43) Following establishment of the Treasury Committee it will meet at least quarterly to monitor the management of treasury related risks. It will report annually or as required to the Audit and Risk Committee on any breaches of this Procedure; actions taken by the University to reduce or eliminate risk and/or exposure; and suggestions for how the University can minimise and mitigate treasury risks.

Section 6 - Approved Financial Instruments

(44) The following financial instruments are approved for use. No other financial instruments are permitted without approval from Council, via the Finance and Business Affairs Committee.

(45) Cash Management:

a. Bank accounts
b. Term deposits.

(46) Interest Rate Risk Management:

a. Interest rate swaps
b. Forward rate agreements
c. Purchased interest rate cap options
d. Interest rate collar and cap options in which floating rate debt is hedged within a minimum and a maximum interest rate level.

(47) Foreign Exchange Risk Management:

a. Currency accounts where appropriate
b. Spot foreign exchange
c. Forward foreign exchange
d. Foreign exchange swaps.

(48) Borrowings:

a. Bank guarantees
b. Letters of credit.

Section 7 - Definitions

(49) For the purpose of this Procedure:

a. borrowing(s): as defined in the Treasury policy
b. cross-currency interest rate swap: as defined in the Treasury policy
c. foreign exchange risk: as defined in the Treasury policy
d. forward exchange contracts: as defined in the Treasury policy
e. hedging: as defined in the Treasury policy
f. interest rate risk: as defined in the Treasury policy
g. liquidity risk: as defined in the Treasury policy
h. operational risk: as defined in the Treasury policy
i. treasury: the Treasury team within University Financials, Finance and Procurement division.

Status and Details

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Responsible Executive	Kerrie Parker Deputy Vice-Chancellor, University Services dvc-us@deakin.edu.au
Implementation Officer	Vanessa Evans Chief Financial Officer
Enquiries Contact	Jacqui Hitchcox Director, University Financials 92446171 University Financials 92446171