Financial Management Rule

Section 1 - Overview

(1) This rule outlines UNE's obligations to ensure appropriate and consistent financial and financial risk management for UNE and its controlled entities.

Section 2 - Scope

(2) This rule applies to the University, staff, contractors, office-holders, council members and controlled entities (staff and board directors). It applies to the following areas of financial management and financial risk:

a. liquidity and funding
b. interest rates
c. foreign exchange
d. investments
e. counterparty credit exposures, and
f. financial operations.

(3) This rule is made pursuant to Section 29 of the UNE Act and Section 25 of the UNE By-Law

Section 3 - Policy

Financial risk appetite

(4) UNE's finances and financial risks are managed in a manner which:

a. is clear, prudent, cost-effective and comprehensive
b. aligns with the university's strategic risk management
c. reflects the needs of stakeholders, and
d. assists the achievement of the University's strategic objectives.

(5) UNE's appetite for financial risk falls between risk-averse and moderate, primarily because it is a not-for-profit government-owned enterprise and requires predictable financial performance and position. Financial risk and return must be considered in the context of UNE's short, medium and longer-term goals.

(6) Investments must be selected that will protect the nominal value capital over the term of the investment.

Liquidity and funding management

Objectives

(7) The objectives are:

a. Ensure access to sufficient cash and facilities to meet financial obligations as they fall due with a target current ratio between 1.5 and 3.0. (DEEWR, 1999, p54)
b. Ensure sufficient excess liquidity to meet financial obligations in the event of unexpected business disruption.
c. Seek to diversify revenue between government and non-government revenue sources. 'The university should have three or four income sources, none of which is below 5%: preferably all should be above 15%. Reliance on government operating grant revenue should reduce, preferably not much more than 50% (excluding abnormal or one-off special payments)' (DEEWR, 1999, p53).
d. Ensure compliance with borrowing facility undertakings.
e. Ensure effective, efficient and orderly use of credit facilities with reliable liquidity management planning and procedures.
f. Ensure that the debt maturity profile is appropriately structured, taking into account the infrastructure and working capital funding requirements, asset/liability matching and refinancing risks.
g. Seek an appropriate mix of capital in order to access diverse funding sources with debt no more than 10% of capital.
h. Ensure an interest coverage ratio (EBIT (and after capital grants)/principal and interest pa) of at least 1.5 while ensuring the current ratio for untied assets/untied liabilities remains within 1.5 and 3.0.

Managing liquidity risk

(8) The Chief Financial Officer will develop and maintain plans for managing unforeseen events which may curtail cash flows and cause pressure on liquidity, including but not limited to:

a. unplanned reduction in revenue
b. unplanned operating expenditure
c. business disruption
d. unplanned capital expenditure
e. sustained reduction in operating margin
f. collapse of capital markets, and
g. collapse of the banking sector.

Managing funding risk

(9) The University funding requirements and funding strategy will be reviewed annually and set out in the annual budget approved by Council.

(10) The annual budget will include a target capital structure that minimises the weighted average cost of capital without adversely impacting liquidity risk and that corresponds to the University's risk preference.

(11) Debt maturities will be spread out to limit risk on debt rollover. Any new facilities negotiated will be contracted with an adequate spread of maturities, taking into account the duration in debt funding requirements, balanced with the cost of capital over short or long tenors.

(12) Where practical and cost-effective, the University will access diverse sources of funding, in order to reduce re-financing risk. Funding sources may include banks, mutuals and capital markets.

Liquidity reserve

(13) Liquidity and funding risk will be managed through the liquidity reserve (DEEWR, 1999, p56).

(14) The minimum liquidity reserve will be the sum of amounts required to cover:

a. the likely shortfall (if any) in actual net cash flow to forecast
b. event risk
c. committed and uncommitted borrowings maturing with the next 12 months, and
d. strategic funding purposes.

LESS

a. any target operational cash float, liquidity buffer or excess liquidity maintained from time to time.

(15) To manage short-term operating liquidity, a target operational cash float will be maintained, based on the minimum cash required to cover regular costs. Access to the short term operational cash float must be immediate. The expected return on the short term operational cash float is the cash rate.

Interest rate management

Objectives

(16) The objectives are:

a. Minimise large variations in earnings, capital or cash flow, while ensuring an appropriate flexibility to accommodate potential changes in funding requirements.
b. Ensure fixed and floating interest rate exposures on assets and liabilities are managed in accordance with this rule.
c. Use a proactive risk management approach with an emphasis on risk reduction, rather than profit maximisation, and achieve a mix of fixed and floating interest rate exposure on interest bearing debt.

Managing interest rate risk

(17) For debt, the Finance Committee of Council will approve interest rate risk management strategies.

(18) The University will manage debt interest rate risk by determining the appropriate level of fixed and floating rate exposure in each maturity band. The benchmark, and authorised ranges, will be based on a percentage of fixed interest rate exposure per year.

(19) Authorised ranges for fixed interest rate exposure on borrowings are set out in the following table.

Maturity	Minimum fixed rate exposure	Maximum fixed rate exposure
<5 years	50%	100%
>5 Years	40%	60%

Foreign exchange transactions

Objectives

(20) The objectives are:

a. Minimise large variations in earnings, capital or cash flow arising from the impact of exchange rate movements.
b. Ensure prompt and proper identification of foreign currency exposures.

Managing foreign exchange risk

(21) The University will, where possible and appropriate, hedge the variability in cash flows associated with changes in

exchange rates in order to fix amounts of foreign income and expenditure in Australian dollar terms.

(22) Committed (timing and amount) foreign currency exposures identified in excess of A$150,000 will be hedged between 50 and 100%, with foreign exchange contracts, to the expected date(s) of settlement. It is the responsibility of the relevant directorate, faculty or organisational unit to identify possible foreign currency transactions early and to formally request hedging cover immediately to the finance directorate. The finance directorate is responsible for transacting and managing foreign exchange risk.

Authorised foreign exchange products

(23) The products are:

a. Fixed forward exchange contracts
b. USD bank account with a maximum balance of $2million, and/or
c. Spot FX transactions.

Counterparty credit management

Objective

(24) To ensure counterparties to UNE's financial transactions are creditworthy and that the transactions are within approved delegations.

Managing counterparty credit risk

(25) The requirements are:

a. All counterparty exposures must be identified and reported for regular review against counterparty limits.
b. Counterparty limits will be based upon the counterparty credit rating.
c. The university will only deal with counterparties with an investment grade long term credit rating.
d. Actual limits, for each counterparty, will be set out in procedures associated with this rule.

(26) The following table sets limits for the short term cash float and the short term investment portfolio.

Organisation	Credit Rating	Maximum exposure (% of short term cash float and STIP)	Maximum term to maturity
Licensed bank	AAA to AA-	100%	12 months
Licensed bank	A+ to BBB	40%	12 months
APRA approved credit unions and building societies	Rated or unrated	25%	6 months
Commonwealth or State Government	AA- or above	25%	12 months

Investments

Objective

(27) The objectives are:

a. To maximise return to the university while limiting interest rate risk and credit risk exposure to an acceptable level.
b. Select investments/investment portfolios that will protect the nominal value capital over the term of the

investment.

c. Investment will be made ensuring University cash flow requirements are met as and when they fall due.
d. Invest in accordance with schedule 2 of the University of New England Act 1993, and the University of New England (Investment Powers) Order 2003.
e. To invest the assets prudently ensuring the portfolio/s have an appropriate risk profile, adequate liquidity and diversification.
f. For university commercial activities, the return on investment target will be equal to or higher than current cash management rates (DEEWR, 1999, p58).
g. To invest solely in the best interests of the university.
h. To invest with care, skill, prudence and due diligence.
i. To observe conditions attached to bequests/donations when investing.

Managing investments

(28) Principles :

a. Investment of funds (including in any asset category) will be diversified to manage credit risk (refer above).
b. Interest rate security investments will be managed with a 'held to maturity' philosophy.
c. Investments are limited to a short-term investment portfolio, and a long-term investment portfolio.
d. investment returns may experience volatility and fluctuations in market value. The university will tolerate volatility as measured against the volatility of a comparable market index in each asset class and a composite index based on the strategic allocation to each asset. The indices (eg, ASX All Ordinaries index) used as a measure of an investment manager's performance will also be used to benchmark what is allowable volatility (risk).
e. Authority to approve the transfer of funds, including to an approved funds manager, is governed by the University's Financial Delegations.

Short term investment portfolio (maturity <1 year)

(29) This portfolio provides liquidity to meet short term operational and capital commitments by investing in financial instruments that are liquid, at interest rates higher than the transaction bank account and that have minimal chance of loss of capital. A fund manager/s may be engaged to manage part of or this entire fund (see section 5.2.3). Investments are limited to cash and fixed interest products and do not involve property or equity investments.

(30) Return required: outperform the weighted average return of Cash: UBS Bank Bill index (short term) & Fixed interest: UBS Composite Bond Index.

(31) Risk appetite: market yields are expected to cause occasional reduced performance.

Long term investment portfolio (maturity >1 year)

(32) This portfolio augments the long term strategic objectives of the university by investing in growth asset categories aimed at returns marginally greater than fixed term interest with negligible chance of loss of capital. Money related to commitments which are more than one year away can be invested in this portfolio.

(33) For this portfolio, the university will engage a fund manager (see section 5.2.3).

(34) Return required: To match or outperform the average return of CPI plus 3% pa over rolling three year periods after deduction of investment fees paid (if any) for investment management.

(35) Risk appetite: Annual returns are expected to be quite variable with a likelihood that on average 1 year in 5 may

produce a negative return.

Fund advisers and managers

(36) The university may employ one or more fund advisers/managers to achieve its investment objectives. Where funds are held by a controlled entity, the controlled entity may also engage one or more funds managers. Where the services of fund managers are used, the managers will have full responsibility for the investment of the assets, within agreed mandates. Fund advisers and managers must, at all times during which investments are made, hold a current Australian Financial Services Licence and comply with their obligations under all laws including applicable ASIC policies and the conditions of any ASIC Class Order or individual relief granted by ASIC.

(37) Adding a new fund adviser/manager must be approved by the Finance Committee, Council and, where required by law, the NSW Treasurer.

(38) Authority to approve the transfer of funds to an approved funds adviser/manager is governed by the University's Financial Delegations.

Investment advisers

(39) The university (and its controlled entities) may engage and seek advice from an investment adviser for services including but not limited to assessing the risk of investment in each investment category, the combined risk and return characteristics of the investment funds relating to each category, and in general product advice.

Authorised investment products

(40) Include:

a. At-call cash accounts
b. 11AM cash
c. Fixed interest term deposits
d. Bonds
e. Debentures
f. Treasury Notes
g. Negotiable Certificates of Deposit
h. Bank Bills
i. Transferable Certificates of Deposit
j. Promissory Notes, and
k. Professionally managed funds:
    i. NSW Treasury Corporation (T-corp)
        - Hourglass Cash Fund
        - Bank Term Deposit Distribution Service
    ii. Russell Investment Group Ltd
        - Russell Australian Cash Fund
        - Russell Enhanced Cash Fund
        - Russell Australian Bond Fund
        - Russell International Bond Fund
        - Russell Australian Shares Enhanced Income Fund
        - Russell International Shares Fund
        - Russell Global Listed Infrastructure

- Russell International Property Securities Funds - $A Hedged
- Russell Diversified 50 Fund
- Russell Conservative Fund
- Russell 10% Growth Fund
- Russell 25% High Dividend Australian Shares

iii. Perennial Australian Fixed Interest Trust - managed by Perennial Investments Partners Limited
iv. Merlon Wholesale Australian Share Income Fund - managed by Merlon Capital Partners
v. Perpetual Pure Value Share Fund - managed by Perpetual Investment Management Limited
vi. MF Charities Equities Fund - managed by Airlie Funds Management
vii. iShares S&P/ASX 20 Fund - managed by BlackRock
viii. Metrics Diversified Australian Senior Loan Fund - managed by Metrics Credit Partners
ix. Lanyon Australian Value Fund - managed by Lanyon Asset Management Pty Ltd
x. Maple-Brown Global Listed Infrastructure Fund - managed by MBA GLI Pty Ltd
xi. Vanguard International Shares Index Fund - managed by Vanguard
xii. JO Hambro Global Select Fund - managed by JO Hambro Capital Management Group
xiii. Paradice Global Small Mid Cap Fund - managed by Paradice Investment Management
xiv. Fermat ILS Yield Fund - Managed by Fermat Capital Management, and
xv. Myer Family Company Ltd.

Investment limits

(41) Financial limits for investment transactions are in the UNE schedule of financial delegations. The following table sets limits for maturity, liquidity and investment targets.

Investment portfolio	UNE Short Term Investment Portfolio	UNE Long Term Investment Portfolio	UNE Foundation MFCo Immediate Benefit Pool	UNE Foundation MFCo Perpetual Benefit Pool
Time Horizon	1 year or less	> 1 year	<12 months	Long term (in perpetuity)
Accessibility/liquidity	Within 5 business days	Within 30 business days	Within 5 business days	Within 30 business days
Target return	Cash: UBS Bank Bill index (short term) Fixed interest: UBS Composite Bond Index	CPI +3%	To protect the nominal capital value of the portfolio and meet cash flow requirements. Cash: UBS Bank Bill Index (short term)	CPI + 3% over rolling five year periods
Target term	12 months	36 months or as funds required eg donations held in perpetuity	<12 months	Long term (in perpetuity)

Investment allocation

(42) The investment allocation benchmarks for the short term investment portfolio (STIP), the long term investment portfolio (LTIP), and the UNE Foundation investment portfolios are in the tables below.

Short term investment portfolio asset class	Strategic benchmark	Tolerable range
Cash	5%	3-8%

Fixed interest term deposits, promissory notes, treasury notes, government bonds	95%	92-97%
TOTAL	100%	

Long term investment portfolio asset class	Strategic benchmark	Tolerable range
Fixed interest and cash	55%	50-70%
Australian shares	35%	20-40%
Overseas shares	7.5%	5-10%
Unlisted property funds	0%	0-5%
Australian listed property	2.5%	0-5%
Overseas listed property	0%	0-5%
Hedge funds	0%	0-5%
TOTAL	100%	

UNE Foundation Immediate Benefit Pool	Strategic benchmark	Tolerable range
Cash (at call, 11am professional funds accounts)	100%	100%

UNE Foundation Perpetual Benefit Pool (Click here for the table).

Financial transaction operations

Objective

(43) Apply appropriate controls to minimise the potential for financial loss through human error, fraud or the inappropriate use of financial instruments.

Managing financial transaction operational risk

(44) Risk will be managed by:

a. Clearly define the roles, responsibilities and authorities of staff involved with financial transactions.
b. Ensure key treasury/finance process tasks and corresponding controls are adequate and operate effectively.
c. Ensure compliance with audit, contractual and statutory requirements.

Breaches of Policy

(45) Any breaches of this rule will be reported immediately to the Chief Financial Officer, who will determine whether corrective action is to be taken.

(46) The breach will be reported to the Council Finance Committee at its next meeting, including the reasons for the breach occurring, and the corrective action taken, if any.

Reporting

(47) The Chief Financial Officer will provide reports to the Vice-Chancellor monthly; and to the Finance Committee of Council for each of its scheduled meetings which:

a. address the university's:
    i. liquidity profile
    ii. interest rate profile
    iii. foreign exchange transaction risk profile
    iv. counterparty credit risk profile, and
    v. operational risk profile.
b. show actual outcomes compared to risk limits and benchmarks, and
c. highlight breaches of limits/delegations.

Procedures

(48) The Chief Financial Officer will establish procedures for the implementation of this rule.

Roles and responsibilities

University Council

(49) Under Section 16 of The University of New England Act 1993, the functions of Council include investing any funds belonging to or vested in the University, overseeing risk management and assessment and approving systems of control and accountability.

Finance Committee

(50) The Finance Committee is a committee responsible to the University Council for the governance of the University's financial management activities. The responsibility of this Committee is to oversee and review financial and investment activities, approve asset allocation strategies, review and approve any policy, guideline or procedural changes and benchmarks and approve the appointment of any investment Fund Managers and/or consultants within the confines of the University's financial delegations. The Finance Committee is responsible for monitoring the development, review and implementation of financial strategies, policies and delegations.

Controlled entities

(51) Controlled entities are expected to work closely with the University Chief Financial Officer in applying this policy.

Revenue & Investment Section

(52) The Revenue & Investment Section within the Financial Services Directorate attends to the day - to - day investment activities under delegation and within these guidelines. This Section is responsible for managing the day to day cash flow operational needs of the University, short term cash requirements and managing the portfolio of investment funds not allocated to external fund managers for long term investment. Based on this rule, and under the direction of the Chief Financial Officer and the Director, Financial Services, the Section will determine broad targets for the level of available investment funds that are to be held in cash or cash equivalent forms.

Definitions

(53) Counterparty credit risk means the risk of sustaining a loss as a result of a default by a counterparty to a transaction into which the University has entered.

(54) Counterparties may include banks that may have entered into a hedging transaction with the University related to the management of financial risks.

(55) Foreign exchange transaction risk means the risk of sustaining a loss due to movements in exchange rates. Such risks may occur through an increase in the Australian dollar value of foreign currency payables or a decrease in the

Australian dollar value of foreign currency receivables.

(56) Hedging means making an investment or entering into a transaction with the aim of offsetting the risk of adverse price movements in an asset.

(57) Interest rate risk means the risk of a reduction in earnings, capital or cash flows as a consequence of movements in interest rates.

(58) Liquidity risk means the risk of sustaining loss due to having insufficient liquidity to meet future commitments.

(59) Financial transaction operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

(60) Financial risk management means the financial management of the university's collections, disbursements, liquidity and funding so as to mitigate financial, operational and reputational risk.

(61) Nominal capital protection assets which have a high certainty of retaining their dollar capital value at any time. Unlikely to be a good hedge against inflation, particularly when in a highly taxed environment. Defensive when growth assets fall, useful in emergencies.

(62) Stable cash flow assets where returns are expected to be skewed towards regular and possibly growing income streams rather than capital growth — although some capital growth may also occur. Income payments should be stable, but capital may fluctuate.

(63) Market direction low cost exposure to equity markets, either domestically or overseas. The aim is to gain access to and capture the direction of a chosen market as cheaply as possible, as well as any income the market derives.

(64) Active growth access to opportunities or skills which have potential to produce better returns than holding investments passively. Higher returns may come as a function of skilful risk management and relative protection of capital in down markets.

(65) Diversifier Investments or skills-based strategies designed to produce returns which are lowly correlated to the direction of equity markets or the performance of cash and fixed interest investments in Australia.

Status and Details

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Unit Head	Ilias Dimopoulos Head of Finance
Enquiries Contact	Office of the Chief Financial Officer