

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 buff 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.

(16) To manage liquidity in short and medium-term investment portfolios, the following term to maturity limits shall apply, having regard to the combined suite of short and medium-term investments.

| Term to Maturity | Minimum Allocation | Maximum Allocation |
|------------------|--------------------|--------------------|
| 0-12 months | 50% | 100% |
| 1-3 years | 0% | 40% |
| 3-5 years | 0% | 20% |

Interest rate management

Objectives

(17) 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

(18) For debt, the Finance and Infrastructure Committee will approve interest rate risk management strategies.

(19) 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.

(20) 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

(21) 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

(22) 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.

(23) 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

(24) The products are:

- a. Fixed forward exchange contracts;
- b. USD bank account with a maximum balance of \$2million;
- c. Spot FX transactions; and/or
- d. Participating Forward contracts and similar products.

Counterparty credit management

Objective

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

Managing counterparty credit risk

(26) 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.

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

| Organisation | Short-Term Credit Rating | Maximum exposure (% of short-term cash float and STIP) | Maximum term to maturity |
|---------------------------------------|--------------------------|--|--------------------------|
| Authorised deposit-taking institution | AAA | 100% | 12 months |
| Authorised deposit-taking institution | A1+ | 100% | 12 months |

| | | | |
|---------------------------------------|--------------|------|-----------|
| Authorised deposit-taking institution | A1 | 60% | 12 months |
| Authorised deposit-taking institution | A2 | 40% | 12 months |
| Authorised deposit-taking institution | Unrated | 15% | 6 months |
| Commonwealth or State Government | AA- or above | 100% | 12 months |

(28) Where investments are held via managed investment funds, the average credit rating of the portfolio of securities will be the measure of credit rating of the managed fund as a whole.

(29) The following table sets limits for the medium term investment portfolio.

| Organisation | Long-Term Credit Rating | Maximum exposure (% of short-term cash float and STIP) | Maximum term to maturity |
|---------------------------------------|-------------------------|--|--------------------------|
| Authorised deposit-taking institution | AAA to AA | 100% | 5 years |
| Authorised deposit-taking institution | A+ to A- | 65% | 5 years |
| Authorised deposit-taking institution | BBB+ to BBB- | 40% | 5 years |
| Authorised deposit-taking institution | Unrated | 15% | 5 years |
| Commonwealth or State Government | AA- or above | 100% | 5 years |

(30) Where investments are held via managed investment funds, the average credit rating of the portfolio of securities will be the measure of the credit rating of the managed fund as a whole.

(31) The following table sets limits for individual counterparties.

| Long-term Credit Rating range | Short-term Credit Rating range | Limit |
|-------------------------------|--------------------------------|-------|
| AAA | | 100% |
| AA | A1+ | 40% |
| A | A-1 | 30% |
| BBB | A-2 | 20% |
| BBB | A-3 | 10% |
| Unrated ADIs | | 5% |

Investments

Objective

(32) The objectives are:

- To maximise return to the University while limiting interest rate risk and credit risk exposure to an acceptable level.
- Select investments/investment portfolios that will protect the nominal value capital over the term of the investment.
- Investment will be made ensuring University cash flow requirements are met as and when they fall due.
- 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

(33) 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, a medium-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)

(34) 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.

(35) Return required: outperform the return of the Bloomberg AusBond Bank Bill Index.

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

Medium-term investment portfolio (maturity >1 year <5 years)

(37) This portfolio augments the short-term portfolio by allowing the University to take advantage of higher returns available on medium-term debt investments, such as fixed rate bonds and floating rate notes.

(38) The University should seek the advice of a suitably qualified adviser or manager to help manage and/or advise on the medium-term investment portfolio.

(39) Return required: outperform the return of the Bloomberg AusBond Credit FRN Index.

Long-term investment portfolio (maturity >5 years)

(40) 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.

(41) For this portfolio, the University will engage a fund manager.

(42) 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. The target return for UNE Foundation investments is specified in Clause (49) below.

(43) 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

(44) 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.

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

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

Investment advisers

(47) 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

(48) Include:

- a. At-call cash accounts
- b. NAB Professional Funds Account
- c. 11AM cash
- d. Fixed interest term deposits
- e. Tailored deposits
- f. Fixed Rate Bonds
- g. Floating Rate Notes
- h. Residential Mortgage-Backed Securities
- i. Debentures
- j. Treasury Notes
- k. Negotiable Certificates of Deposit
- l. Bank Bills
- m. Transferable Certificates of Deposit
- n. Promissory Notes, and
- o. 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 Australian Cash Enhanced Fund Class A
- Russell Australian Bond Fund Class A
- Russell International Bond Fund - \$A Hedged Class A
- Russell Australian Opportunities Fund Class A
- Russell Australian Shares Enhanced Income Fund
- Russell International Shares Fund
- Russell Global Opportunities Fund Class A
- Russell Global Opportunities Fund - \$A Hedged Class A
- Russell Global Listed Infrastructure - \$A Hedged Class A
- Russell International Property Securities Funds - \$A Hedged Class A
- Russell Diversified 50 Fund
- Russell Conservative Fund
- Russell 10% Growth Fund
- Russell Multi Asset Growth Strategy Fund
- Russell 25% High Dividend Australian Shares ETF

iii. Macquarie Investment Management Limited

- Macquarie Income Opportunities Fund

iv. Perpetual Investment Management Limited

- Perpetual High Grade Treasury Fund

Investment limits

(49) 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 Medium-Term Investment Portfolio | UNE Long-Term Investment Portfolio | UNE Foundation Immediate Benefit Pool | UNE Foundation Perpetual Benefit Pool |
|-------------------------|-------------------------------------|--------------------------------------|------------------------------------|--|---|
| Time Horizon | 1 year or less | >1 year <5 years | >5 years | <4 years | 4 years or longer (including in perpetuity) |
| Accessibility/liquidity | Within 30 business days | Within 30 business days | Within 30 business days | Within 5 business days capital value | Within 30 business days |
| Target return | Bloomberg AusBond Bank Bill Index | Bloomberg AusBond Credit FRN Index | CPI + 3% | To protect the nominal capital value of the portfolio. Returns may be allocated to a UNEF reserve fund. Cash: UBS Bank Bill Index (short term) | CPI + 3.5% |

| | | | | | |
|-------------|-----------|-------------------|--|----------|-------------------|
| Target term | 12 months | 36 months average | 36 months or as funds required (eg. donations held in perpetuity). | <4 years | 4 years or longer |
|-------------|-----------|-------------------|--|----------|-------------------|

Investment allocation

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

| Short and Medium-term investment portfolio asset class | Strategic benchmark | Tolerable range |
|--|---------------------|-----------------|
| Cash (at call, 11am, professional funds accounts) | 5% | 0-10%* |
| Fixed interest term deposits, promissory notes, tailored deposits, floating rate notes, treasury notes, government bonds | 95% | 92-97% |
| TOTAL | 100% | |

Note:* The value of the level of cash held in the STIP shall take account of the value of the Cash Float.

| 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 | 30% | 20-50% |
| Cash equivalents, including money market instruments (including but not limited to bank bills and certificates of deposit), corporate floating rate notes and asset-backed and mortgage-backed securities | 70% | 50-80% |
| TOTAL | 100% | |
| UNEF Foundation Perpetual Benefit Pool | Strategic benchmark | Tolerable range |
| Fixed interest and cash | 40% | 30-50% |
| Australian shares | 15% | 15-40% |
| Overseas shares | 15% | 10-30% |
| Global Infrastructure | 2.5% | 0-5% |
| Australian listed property | 0% | 0-5% |

| | | |
|--------------------------|------|-------|
| Overseas listed property | 2.5% | 0-5% |
| Other* | 25% | 0-25% |
| TOTAL | 100% | |

*Other = Multi-Asset Growth Strategy Fund. Please note that as the Multi-Asset Growth Strategy Fund is comprised of investments from a range of asset classes, allocations to this fund may have the effect of increasing the total UNE Foundation Perpetual Benefit Pool's allocation to specific asset classes at a particular point in time.

Lending

(51) The University may lend funds. Approval of all lending shall be subject to delegations as if these were an expenditure.

(52) Any lending that results in a deterioration in the forecast end of year Net Asset position of the University, in comparison to the approved budget, shall be approved in advance by the Finance and Infrastructure Committee.

Equity Investments

(53) The University may provide an injection of capital to a controlled entity. Approval of all such transactions shall be subject to delegations as if these were an expenditure.

(54) Any equity transaction that results in a deterioration in the forecast end of year Net Asset position of the University, in comparison to the approved budget, shall be approved in advance by the Finance and Infrastructure Committee.

Financial transaction operations

Objective

(55) 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

(56) 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

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

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

Reporting

(59) The Chief Financial Officer will provide reports to the Vice-Chancellor and Chief Executive Officer monthly, and to the Finance and Infrastructure Committee 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

(60) The Chief Financial Officer will establish procedures for the implementation of this Rule.

Roles and responsibilities

Council

(61) 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 and Infrastructure Committee

(62) The Finance and Infrastructure Committee is a committee responsible to the 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 and Infrastructure Committee is responsible for monitoring the development, review and implementation of financial strategies, policies and delegations.

Controlled entities

(63) Controlled entities are expected to work closely with the Chief Financial Officer in applying this Rule.

Revenue & Investment Section

(64) The Financial Performance and Analytical Services (FPAS) attends to the day to day investment activities under delegation and within these guidelines. Financial Performance and Analytical Services 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 Manager Treasury (FPAS), will determine broad targets for the level of available investment funds that are to be held in cash or cash equivalent forms.

Definitions

For the purposes of this Rule the following definitions apply.

(65) 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.

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

- (67) 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.
- (68) Hedging means making an investment or entering into a transaction with the aim of offsetting the risk of adverse price movements in an asset.
- (69) Interest rate risk means the risk of a reduction in earnings, capital or cash flows as a consequence of movements in interest rates.
- (70) Financial transaction operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- (71) 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.
- (72) Liquidity risk means the risk of sustaining loss due to having insufficient liquidity to meet future commitments.
- (73) 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.
- (74) 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.
- (75) 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.
- (76) 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 skillful risk management and relative protection of capital in down markets.
- (77) 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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|---------------------------|---------------------------------------|
| Status | Historic |
| Effective Date | 28th September 2018 |
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| Unit Head | Ilias Dimopoulos Head of Finance |
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