

Treasury Management

Policy Responsibilities and Authorisation

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Policy Review History

Version	Updated by	Date Updated	Summary of Changes
6	Rowan Cramond	10 February 2016	Change to new policy template format
			Reflect recent changes to shared banking arrangement.
			Recognise that the new Executive Director – Corporate Services role has the same delegations and responsibilities with the CFO role, but in a secondary/backup capacity.

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Treasury Management

1. Introduction

1.1 Purpose

The purpose of this Treasury Management policy is to provide staff and the Board of Waikato DHB with a clear understanding of Waikato DHB's treasury objectives, procedures and staff responsibilities.

1.2 Background

The Operational Policy Framework (OPF) is a set of business rules, policy and guideline principals that outline the operating functions of DHBs. The OPF requires DHBs to have a formal written Treasury policy to address key financial risks it faces.

1.3 Scope

The policy focuses on the role of the treasury function and responsibilities and relationships with other activities of Waikato DHB.

1.4 Exclusions

Nil

2. Definitions

Liquidity Risk	Liquidity Risk is the risk that: <ul style="list-style-type: none"> In the long-term, inadequate funds exist to support required capital investment and/or refinance existing long-term debt as it matures In the short-term, inadequate funds exist to meet current liabilities as they fall due
Interest Rate Risk	Interest Rate Risk is the risk that, as a result of adverse market movements, the Customer experiences: <ul style="list-style-type: none"> Unacceptable variation in its cost of funding from year to year, and/or Unacceptable variation in its cost of funding compared to budget
Foreign Exchange Risk	Foreign Exchange Risk is the risk that, as a result of adverse market movements, the Customer experiences: <ul style="list-style-type: none"> Unacceptable variation in total operating costs compared to budget, or Unacceptable variation in the cost of a specific project compared to budget.
Counterparty Credit Risk	Counterparty Credit Risk is the risk that the Customer incurs a financial loss as a result of a counterparty's inability or unwillingness to meet its financial obligations.
Operational Risk	Operational Risk (in respect of the Treasury Management Policy) is the risk that the Customer incurs a financial and/or reputational loss as a result of human error, fraud, negligence, or systems failures.
Reporting Risk	Reporting Risk is ensuring reporting is compiled by suitably independent personnel and provided to users as specified elsewhere in the Treasury Management policy.

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3. Policy Statements

Waikato DHB's treasury operations are managed in an efficient, risk-averse and non-speculative manner.

4. Policy Processes

4.1 Roles and Responsibilities

Management structure and responsibilities

- The management structure of those involved in treasury activities is to be efficient and enable operational financial risk to be managed by suitably qualified and experienced personnel. This is reflected in the segregation of duties and relevant responsibilities in the key areas of banking, authorising, dealing, settling, accounting, reporting and reviewing functions.
- The responsibilities of the key people involved in the treasury function, being CFO, Treasurer, Financial Accountant, Finance Managers, Banking Administrator, and online SuperUsers are set out below.
- The responsibilities of the key people may be delegated to other suitably qualified and experienced staff where required, to cover situations such as absences.
- Unless otherwise delegated, no individual employee may act outside the parameters specified in this policy and in the Delegations of Authority Policy.

Chief Financial Officer

The Chief Financial Officer has responsibility for:

- overall treasury management and strategy
- treasury budget management
- balance sheet management including monitoring of cash positions and loan balances
- borrowing and investing within existing arrangements
- getting approval from CEO to rollover existing arrangements
- getting approval from the Board or its nominated Committee(s) to enter new investing or borrowing arrangements
- all capital market activities
- providing, in conjunction with the Treasurer, treasury management reports to the Board and/or nominated Committee(s)
- review of treasury management reports and provision of feedback and comments to preparers to ensure user needs are met
- approving all hedging transactions as specified in Appendix A, 4.4
- authorising electronic external payments (requires 2 authorisers)

Note: The Executive Director Corporate Services has the same responsibility as the Chief Financial Officer but in a secondary capacity, so provides backup to the Chief Financial Officer.

Treasurer

The Treasurer has responsibility for:

- provision of the treasury management and banking function by appropriate staff
- preparation of treasury budgets and business plan financials

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- managing Treasury Responsibility Centre revenue and costs
- managing all external treasury and banking relationships and contracts between Waikato DHB and its suppliers
- arranging committed banking and loan facilities
- advising upon reviews of banking facilities to provide the most efficient mix for Waikato DHB
- maintaining a minimum of 12-month future cash flow forecast
- preparing all required Board reporting
- obtaining approval to raise loan finance and draw down when appropriate as in Appendix A, 4.2
- undertaking hedging transactions as specified in Appendix A, 4.4
- monitoring performance of any hedging activity
- maintaining an up-to-date Treasury Management Policy
- reporting on Treasury related issues
- monitoring debt covenants
- providing all required NZ Health Partnerships Ltd (NZHPL) notifications and reporting required in Appendix B, 3
- reviewing account reconciliations prepared by Banking Administrator
- authorising electronic external payments (requires 2 authorisers)

Financial Accountant

The Financial Accountant has responsibility for:

- maintaining full knowledge of the treasury function to provide operational backup to the Treasurer
- assisting in preparation of board reporting
- maintenance of daily and monthly forecasting
- assisting in the provision of required information to NZHPL
- undertaking hedging transactions as specified in Appendix A, 4.4
- entering daily payments into the online banking system
- providing support and backup to the banking administrator
- authorising electronic external payments (requires 2 authorisers)

Finance Manager(s)

Finance Managers have a responsibility to:

- authorising electronic external payments (requires 2 authorisers)
- undertaking hedging transactions as specified in Appendix A, 4.4

Banking Administrator

Banking Administrator has responsibility for:

- estimating the daily cash position of all accounts and actioning internal transfers of funds as required
- entering daily payments into the online banking system
- checking all daily payments are entered and authorised
- preparing and posting treasury accounting journals
- preparing bank and treasury reconciliations for all accounts
- receiving notification from NZHPL of daily sweep confirmations and responding to NZHPL confirming these are correct
- receiving notification from NZHPL of monthly sweep and interest confirmations and responding to NZHPL confirming these are correct
- investigate or raise with Financial Accountant or Treasurer for investigation any instances where NZHPL sweep or interest confirmations are not correct
- matching banking transactions to Oracle transactions, including liaison with Finance Support department to ensure journal entries correctly align to bank transactions

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- completing daily cashflows reporting (against forecast)
- maintaining an up-to-date register of bank account details
- maintaining an up-to-date register of merchant service agreements
- ordering bank transaction traces
- ordering all cheque books and deposit slip books
- receiving and filing all deal tickets resulting from hedging transactions as specified in Appendix A, 4.4

Online SuperUsers

Online SuperUsers have responsibility for:

- Resetting online banking system passwords for the Banking Administrator and Authorisers of banking transactions (requires two SuperUsers). Resetting of passwords is communicated solely to the User concerned.
- Amending the rights to the online banking system for the key personnel in this policy (requires two SuperUsers).

All Online SuperUsers must not be, or have delegated responsibility to be, any of the other key personnel mentioned in this policy.

4.2 External banking arrangements

- All external banking arrangements are to be contracted in accordance with the Delegations of Authority policy and managed by the CFO or Treasurer (or their delegates).
- Waikato DHB must meet all its obligations under the Treasury Services Agreement between Health Benefits Limited and Waikato DHB (Appendix B3).
- Waikato DHB will aim to actively participate in the governance and strategic direction of the national (all DHBs) shared treasury and banking arrangement with HBL to ensure DHB funds are effectively managed, and participate in the sector-wide review of Westpac's performance as transactional banker under the arrangement

4.3 Financial market activities

Borrowing

Short term borrowing:

- Waikato DHB may only borrow short term with NZHPL under the national shared treasury and banking arrangement.
- Short term borrowing is managed in accordance with NZHPL's Treasury Policy. The overarching objective of this policy is to ensure that the DHB shared banking arrangement between all DHBs and the banking supplier is managed in an efficient, risk-averse, and non-speculative manner.
- Waikato DHB remains bound by the liquidity requirements of the OPF - in particular, any DHB's total working capital financing can be up to the level of one-12th of the annual planned revenue paid by the funder arm to the provider arm as denoted in the most recently approved Annual Plan inclusive of GST.

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Long term borrowing:

- Long term debt will be borrowed at fixed interest rates from the Ministry of Health in accordance with the OPF.
- The interest rate maturity dates of long term debt will be spread over time such that the maximum percentage of total debt amount maturing in any one financial year (ending 30 June) shall not exceed 40% of total long term borrowings.
- New funding opportunities are to be investigated by the Treasurer who is to liaise with the Chief Financial Officer to obtain any necessary approvals leading towards implementation.

All borrowing:

- All borrowing must adhere to the delegations and authorities for borrowing set out in the delegations of authority policy.
- The Treasurer will review Waikato DHB's borrowing requirements so as to find the most efficient means of financing for Waikato DHB
- Waikato DHB may only borrow from the authorised counterparties as listed in Appendix B, 1.
- All borrowing is to be reported by the Treasurer to the Chief Financial Officer.
- The Chief Financial Officer must notify the Board if total borrowing comes within 5% of any debt covenant stated in any agreement.
- The Chief Financial Officer must notify the Board if total borrowings comes within 5% of liquidity requirements set out by the Ministry of Health's Operating Policy Framework (such as working capital liquidity limits).
- Any borrowing that breaches debt covenants is not permitted.

Investments

- Waikato DHB may only invest within the limits specified in NZHPL's shared banking arrangement.
- Investments are managed in accordance with NZHPL's Treasury Policy. The overarching objective of this policy is to ensure that the DHB shared banking arrangement (between all DHBs and the banking supplier) is managed in an efficient, risk-averse, and non-speculative manner.
- The DHB shared banking arrangement results in no credit risk exposure to other DHBs, but considerable risk exposure to NZHPL and the banking supplier (to the extent that all cash balances are held by NZHPL, but NZHPL will pass on any losses it incurs as a result of default by the banking supplier).

Hedging

General

- Waikato DHB is aware of both interest and foreign exchange rate variation risk. It shall manage these in a risk adverse manner.
- Any underlying risk is identified by using cash flow forecasts, the business plan approved by the Board, and the knowledge of the Chief Financial Officer and Treasurer.
- The Treasurer is to protect Waikato DHB from adverse interest and exchange rate movements by hedging transactions when considered appropriate by the Chief Financial Officer.

Managing interest rate risk

- Waikato DHB interest rate risk management is achieved by borrowing at fixed interest rates across a range of maturity dates.
- Interest rate hedging may occur when pre-pricing risk exists by agreement of an interest rate in advance with the Ministry of Health, through the use of derivative financial products such as interest rate swaps.

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- The total notional principal of all interest rate hedging contracts held by Waikato DHB cannot exceed 90% of Waikato DHB's projected average debt levels without the approval of the Chief Executive Officer and one Board member who is either the Chair of the Board or the Chair of the Audit and Risk Management Committee.

Managing foreign exchange risk

- All bank accounts are by Waikato DHB are denominated in New Zealand dollars.
- Specific items of equal or greater than NZ\$200,000 are to be at least 50% hedged once the value and timing of payments is known and business case has been approved by the board. Further cover up to a maximum of 100% can be taken at any stage between such recognition and when payment is expected to be made.
- Although Waikato DHB normally has minimal foreign exchange purchases, where they do arise, this will normally be linked to the US dollar currency. The percentage of the risk to hedge for imported capital equipment based in US dollar currency will be in accordance with Appendix C.
- Specific capital items less than NZ\$200,000 can be covered to a maximum of 100% at the discretion of the Chief Financial Officer.
- Cover of up to a maximum of 100% can be taken for a group of transactions relating to operational expenditure at the discretion of the Chief Financial Officer.
- The types of hedges utilised will depend of the risk situation that is required to be hedged. These may include:
 - forward exchange contracts
 - put/call options
 - zero cost collars
 - partial premium collars
- Hedging transactions will only be actioned once certainty of the risk has been determined including amounts and timing.

4.4 Trading, Settlement and Accounting

- Under no circumstance can Waikato DHB engage in speculative trading. Speculative trading is defined as any transaction entered into for any reason other than to meet an operating obligation or to hedge an operating obligation, but does not include risk free arbitrage.
- Approving, actioning, recording, accounting and monitoring functions remain segregated and use multiple authorisations to prevent the possibility of unauthorised transactions and the manipulation of records.

Dealing

- All dealing counterparties must be listed in Appendix B, 1.

Deposits and Settlements

- All receipts are to be receipted by the Financial Support department - Cashiers Office.
- All settlement payments are to be settled by Direct Debit from Waikato DHB's bank accounts and journalled into the general ledger.

Accounting and Reporting

- Transactions are only recognised in the General Ledger upon certainty of settlement.
- Off Balance Sheet transactions are disclosed in the notes to the accounts in accordance with applicable Financial Reporting Standards.

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- A rolling 12-month cash flow forecast will be maintained, demonstrating good working capital management.

4.5 Bank Accounts, Payments and Debtors

Bank Accounts

- The opening and closing of bank accounts and changes in bank signatories are the responsibility of the Banking Administrator and must have the approval of the Chief Financial Officer or Treasurer.
- The Banking Administrator has the responsibility for maintaining an up to date register of bank account details including cheque signatories.

Payments

- Where payment by cheque is required there must be adequate supporting original documentation with approvals by authorised persons clearly shown.
- For treasury transactions it is the responsibility of the Banking Administrator to ensure adequate approvals are obtained.
- Responsibility for re-ordering cheques and other stationery is with the Banking Administrator, who is to coordinate the needs of business units.
- Automatic payments and direct debit initiations are only approved and set up where this is the most appropriate payment mechanism. This will be minimal on the expectation that the business will individually approve all invoices and payments for authorisation.
- All new and amended automatic payments or direct debit initiations must be authorised by two of the signatories to the bank accounts.
- Two signatories are required to authorise all direct banking transactions.

Debtors

- Amounts owed by external parties to the organisation are to be invoiced through the organisation's debtor system from the date that a contractual debt is owed to the organisation.
- A single debtor system nominated by the Chief Financial Officer shall be used organisation wide as the official debtor system of the organisation.

5. Reporting

- A series of treasury reports are to be prepared, as determined by the Chief Financial Officer to enable the Chief Financial Officer to be fully informed of the treasury activities and treasury positions of Waikato DHB.
- They are to be treated as confidential and filed in secured areas or shredded if no longer required.

6. Security, Filing and Storage of Documents

- The Banking Administrator is to ensure confidential documents including securities are always safely secured either in the Waikato DHB safe or with a bank. Any reports or documents that are no longer required are to be shredded or confidentially disposed of.
- Treasury transactions are to have supporting deal slips, confirmations, authorisations, counterparty acknowledgements and settlement details fixed together and filed in deal order number by the Banking Administrator.

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- Upon completion of the annual accounts audit, previous year's files are to be archived by the Banking Administrator for a period as required by legislation for financial records.

7. Changing Policy

- A change to Appendix A,1 or Appendix A, 2 must be authorised by the Chief Financial Officer.

8. Audit**8.1 Indicators**

All Treasury instruments are managed in accordance with the Treasury policy.

9. Legislative Requirements**9.1 Legislation**

- Financial Reporting Act 2013
- Public Finance Act 1989

9.2 External Standards

- Public Benefit Entity International Public Sector Accounting Standards (PBEIPSAS)
- Ministry of Health Operational Policy Framework

10. Associated Documents**10.1 Associated Waikato DHB Documents**

- Waikato DHB Delegations of Authority Policy
- Waikato DHB Capital Management Policy
- Waikato DHB Financial Accounting Policy
- Waikato DHB Fraud Policy

10.2 References

- NZHPL Treasury Policy

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Appendix A Associated Information

1. Authorised Counter-parties

Investments

- NZ Health Partnerships Limited (NZHPL)
- Westpac Banking Corporation
- Bank of New Zealand
- ANZ National Bank
- ASB Bank

Loans

- Ministry of Health
- NZ Health Partnerships Limited
- Energy Efficiency and Conservation Authority (EECA)
- Westpac Banking Corporation
- Bank of New Zealand
- ANZ National Bank
- ASB Bank

2. Authorised Roles to deal in Risk Management Products

- Treasurer
- Financial Accountant
- Finance Managers

3. DHB Undertakings to NZHPL under the Treasury Services Agreement between NZHPL and Waikato DHB

- Maintain with banking supplier all of its bank Accounts necessary for its banking arrangements and will not seek to close its Sweep Accounts
- Continue to manage all of its operating cashflows and outflows in the normal course of business as if the Treasury Services Agreement between NZHPL and Waikato DHB had not been entered into
- Not borrow any moneys during the term of the Treasury Services Agreement other than
 - from NZHPL (as contemplated in the Treasury Services Agreement)
 - from the Ministry of Health (as successor to CHFA for long-term debt arrangements)
 - to the extent that there is any debit balance in any of the DHB's other accounts prior to the transfers being made
 - from any other private sector entity where the Minister of Finance and the Minister of Health have given their respective consent to such borrowing (e.g. Energy and Efficiency Conservation Authority).
- Investments made outside of the shared banking arrangement are within the limits agreed with NZHPL
- Confirm the DHB's running balance with NZHPL as required, and to the extent that any discrepancies arise will pro-actively seek to reconcile them with NZHPL

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- Maintain up to date cashflow forecasts and will provide copies to NZHPL on a regular basis and at such intervals as NZHPL shall specify in consultation with the relevant DHB
- Allow DHB electronic access to its accounts to enable NZHPL to ascertain and monitor the balances in those accounts, but on the basis that NZHPL shall have no right to transfer any sums therein or to effect any debits thereto (if required)
- To provide NZHPL such information about the DHB's bank accounts, revenues, expenditures, operations, business or financial condition as HBL may reasonably require for the purpose of enabling it to exercise its rights and perform its obligations under the Treasury Services Agreement and in accordance with its statutory functions

Appendix B Capital Exposure - percentage to cover

