

# *Council*

## *Treasury Management Policy*

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## 1 Introduction

The objectives of the AUT University Treasury Management Policy (the “Policy”) are to:

- 1.1 Minimise the costs of capital and ensure borrowing facilities are fit for purpose and in compliance with regulatory requirements.
- 1.2 The Policy recognises and conforms with the relevant requirements of various statutes, including the [Crown Entities Act 2004](#), the [Education and Training Act 2020](#) and the [Public Finance Act 1989](#).
- 1.3 All AUT staff with treasury responsibilities should be familiar with, and apply, the provisions of the Policy.
- 1.4 Identify and effectively manage treasury and financial risk:
  - 1.4.1 It is recognised that hedging will change the timing of cashflows but will not increase the value of cashflows. However, as AUT’s debt levels increase and a core level is identified (as determined by the multi-year cashflow forecast), interest rate hedging may be put in place in accordance with controls in section 6.
  - 1.4.2 All hedging activities must be linked to the directly identifiable financial market exposures faced by the University. Trading or speculation is expressly prohibited.
  - 1.4.3 Effective internal controls are combined with regular management reporting to assist in the prevention of unauthorised activities and to monitor performance in managing treasury risks.
  - 1.4.4 All breaches of this policy are to be notified immediately in writing to the Chief Financial Officer together with the reason for the breach and the remedial action taken or recommended to be taken. A breaches register will be maintained, and detail provided to Council as part of its regular reporting pack.
  - 1.4.5 Enable accurate financial reporting and compliance with statutory financial reporting obligations

The detailed risk management policies that follow are required to be disclosed in the financial statements of the University with sufficient detail to allow readers to assess those risks and how they are managed by the University – refer Public Benefit Entity International Public Sector Accounting Standard (for example, PBE IPSAS 30 Financial Instruments: Disclosures) and others as appropriate.

## 2 Treasury Organisational Structure

The key responsibilities of the positions in the Treasury organisational structure are as follows:

### 2.1 Council

- 2.1.1 Approve the Treasury Management Policy and any amendments on the recommendation of the Vice Chancellor, and the Finance and Audit Committee.
- 2.1.2 Review formally, at least every three years, the Treasury Management Policy document (next renewal February 2024).
- 2.1.3 Receive reports on the management of various treasury matters via the Finance and Audit Committee.

### 2.2 Vice Chancellor

Recommend the Treasury Management Policy and any amendments to the Finance and Audit Committee.

## **2.3 Treasury Management Committee (TMC)**

- 2.3.1 Meets to review treasury risk management strategies. The TMC consists of the Chief Financial Officer, Director of Financial Services, Financial Accounting Manager, Treasury Banking Officer, and any other person nominated by the Director of Financial Services and or an independent treasury advisor.
- 2.3.2 Sets strategies in respect to management of foreign currency exposure and, as applicable, interest rate hedging in accordance with the parameters set out in this treasury policy document.
- 2.3.3 Identifies the profile of borrowing requirements for reporting to the Finance and Audit Committee as approved within the budget and long-term forecasts.
- 2.3.4 Develops techniques and strategies to be used in managing the University's treasury risks.

## **2.4 Chief Financial Officer**

- 2.4.1 Implement the approved Treasury Management Policy.
- 2.4.2 Review periodic treasury reports to monitor compliance by treasury with policies, procedures, and risk limits.
- 2.4.3 Manage the University's relationship with financial institutions and financial advisors.
- 2.4.4 Negotiate borrowing facilities with bankers and appoint brokers/ arrangers/ managers.
- 2.4.5 Open any new facilities with new counterparties, as required.
- 2.4.6 Develop the three-year financial forecast.

## **2.5 Director of Financial Services**

- 2.5.1 Arrange borrowings on approval from the Chief Financial Officer.
- 2.5.2 As required, provide reports to the Chief Financial Officer on investments, borrowings, and risk (foreign exchange and interest rate) management.
- 2.5.3 As required, prepare and revise cash flow forecasts and update against actual cash flows.
- 2.5.4 Set in place all procedures and appropriate internal controls to achieve the treasury objectives of the University.
- 2.5.5 Liaise with the Treasury advisor.
- 2.5.6 Provide back-up for the Chief Financial Officer.

## **2.6 Financial Accounting Manager**

- 2.6.1 Review and amend cash flow forecasts and provide to Director of Financial Services and Chief Financial Officer.
- 2.6.2 Review daily cash management reports and recommend to Director of Financial Services and Chief Financial Officer as specified by the Delegated Authority limits.
- 2.6.3 Review monthly reconciliation of bank statements.
- 2.6.4 Review foreign exchange and bank swaps and ensure included in cash flow forecasts.
- 2.6.5 Provide back up for the Director of Financial Services.

## **2.7 Treasury Banking Officer**

- 2.7.1 Prepare and update daily cash position reports and monthly / quarterly cash flow forecasts.
- 2.7.2 Prepare recommendations to Director of Financial Services or the Chief Financial Officer on foreign exchange, interest rate and investment transactions and action on approval.
- 2.7.3 Prepare the monthly reconciliation of bank statements.
- 2.7.4 Reconciles and checks external confirmation advice on all treasury transactions against internally generated records.
- 2.7.5 Monitor all banking payments.
- 2.7.6 Compile other treasury reports as requested by Director of Financial Services or the Chief Financial Officer.
- 2.7.8 Provide back-up for the Financial Accounting Manager.

No one person will deal, confirm, and settle any treasury transaction.

## **3 Cash Management / Investment Policy**

### **3.1 Legislative Framework**

The University must comply with the Education and Training Act 2020, which prescribes that:

- 3.1.1 The Council of an institution may establish, maintain, and operate bank accounts in the name of the institution at any registered bank.
- 3.1.2 The Council shall properly authorise every withdrawal of money and payment from any of the University's bank accounts.
- 3.1.3 As soon as is practicable after receiving any money the Council shall pay it into one or other of the University's bank accounts.
- 3.1.4 A registered bank is one which is registered by the Reserve Bank and will either be incorporated in New Zealand or is the New Zealand branch of an overseas incorporated bank.

Furthermore, as a Crown entity, the University must comply with the Public Finance Act 1989 which permits money belonging to a Crown entity to be invested in the same manner as public money is invested by The Treasury. The following forms of investment are permitted:

- 3.1.5 Deposit with any bank inside or outside of New Zealand approved by the Minister of Finance; or
- 3.1.6 Public securities; or
- 3.1.7 Other such securities approved by the Minister of Finance.

### **3.2 Policy Statement**

- 3.2.1 Appropriate investment strategies should be applied to all University funds to ensure that external borrowing is minimised through the effective recycling of surplus cash.

### **3.3 Equity Investments**

- 3.3.1 For the purpose of this clause 3.3, references to “AUT” and the “University” refer to Auckland University of Technology and AUT Ventures Limited but not Auckland University of Technology Foundation.
- 3.3.2 The University will limit its investment of surplus funds to organisations with a credit rating of A or above.
- 3.3.3 Subject to 3.3.4, the University does not allow investment in equity markets.
- 3.3.4 The University’s interest in companies is not primarily for monetary gain and the principal reason for entering into arrangements which result in companies/partnerships/joint ventures being generated is for educational purposes. As such the University will allow investments in research entities and other entities which are in line with the University’s principles and main purpose of its operation.
- 3.3.5 AUT Foundation is an independent charitable trust which manages gifts to AUT. AUT Foundation is governed by a Board of Trustees to ensure its activities are legitimate and its financial affairs are managed responsibly. The Trustees are empowered to invest AUT Foundation funds in such form and by what means as they may determine, subject always to AUT Foundation Policies, Statement of Investment Policies & Objects and donor wishes.

## **4 Leasing**

The University recognises that leasing can be a cost-effective method for long-term management of information technology (IT) assets, telecommunication equipment, photocopiers, and other similar types of equipment. Leasing provides the University with more timely, orderly, cost-effective, and risk-free technology refreshments to mitigate technology obsolescence. Furthermore, leasing provides the University with predictable funding forecasts of IT and telecommunication equipment, and it keeps asset management and maintenance at a cost-effective price.

### **4.1 Finance Leases**

Normally, in a finance lease, all risks and benefits incidental to ownership of the leased asset rest with the lessee, that is, the University. A finance lease arrangement is very similar to secured borrowing. The University enters into finance leases for various properties, computers and electronic equipment. If circumstances exist which indicate that a finance lease is the preferred method of financing available, the Director of Finance must indicate this fact in his or her evaluation and state the reasons for this decision. All University finance leases must be approved in accordance with the Delegated Authority Framework as noted in **Appendix 1**.

### **4.2 Operating Leases**

The University enters into operating leases for various property, plant and equipment in the normal course of its business. In an operating lease, substantially all the risks and benefits which are associated with the ownership of the leased asset remain with the lessor, that is, the financial institution. An operating lease is very similar to a hiring arrangement.

All University operating leases must be approved in accordance with the Delegated Authority Framework as noted in **Appendix 2**.

Equipment which is subject to operating leases is to be returned at the end of the lease period, to avoid payment of any penalties. If the lease is to be extended, approval of the Chief Financial Officer is required. Approval to extend the lease is to be obtained prior to agreeing to extend the lease.

While the University will only enter into a lease with a reputable finance company or financial institution, there is no minimum credit rating requirements imposed by the University on its lessor.

The Director of Financial Services is to maintain a register of all University finance and operating leases.

## 5 Borrowings

No commitment to be made to borrowing until approval has been granted by Council and the Secretary for Education, as required by section 282(4)(d) and (7) of the Education and Training Act 2020.

Debt, for the purposes of this policy, is defined as interest bearing, repayable advances from a financial institution.

AUT will borrow for two purposes:

- 5.1 General Purpose Debt: to enable the University to meet obligations of a general purposes nature (working capital) and to implement capital expenditure at an accelerated rate.
- 5.2 Specific Purpose Debt: to enable the University to construct, acquire or invest in an asset, the cashflows generated by which are expected to service the associated debt wholly or substantially.
- 5.3 In either case, the University will borrow only if the resulting capital expenditure or investment contributes materially, in the opinion of the Council, to achievement of the University's strategic objectives.

The Chief Financial Officer must have renegotiated replacement funding facilities at least two (2) months prior to maturity of an existing facility.

## 6 Interest rate risk management

This is the risk that changes in interest rate will have an adverse effect on the financial position of AUT. Interest rate risk can be defined as the impact of interest rate rises on net borrowings.

### 6.1 Policy

#### SEASONAL DEBT

The seasonal nature of AUT's borrowing requirements means that interest rate risk is concentrated between July and January each year.

To manage the interest rate risk resulting from this seasonal debt, AUT may transact fixed interest rate cover for periods when over a rolling 12-month period total borrowing levels are projected to remain above \$25 million for at least a consecutive three (3) month period. Fixed interest rate cover would typically be by way of Forward Rate Agreements (FRA's) or interest rate swaps and targeted to the peak borrowing months. Any fixed interest rate cover undertaken should not exceed 80% of the projected monthly borrowing.

#### CORE DEBT

Core debt projections are agreed by the TMC and should be taken from the Council approved forecasts. The amount of fixed interest rate cover must be maintained within the following control limits over core debt.

| <i>Example policy bands</i> |         |         |
|-----------------------------|---------|---------|
|                             | Minimum | Maximum |
| <b>0 - 2 year</b>           | 40%     | 90%     |
| <b>2 - 3 years</b>          | 30%     | 75%     |
| <b>3 - 5 years</b>          | 0%      | 60%     |

The above limits only apply where AUT has core debt in excess of \$50M. At levels below \$50M, hedging is at the discretion of the TMC – subject to it not exceeding the bands above.

Council approval is required for any fixed rate cover beyond five (5) years.

## **6.2 Approved interest rate risk management products**

- 6.2.1 Fixed rate debt – defined as any debt that has an interest rate reset beyond three (3) months.
- 6.2.2 Interest rate swaps.
- 6.2.3 Interest rate caps and collars.

**6.3 Interest rate options** are not permitted to be sold outright. However, a 1:1 collar option structure is allowable whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option the sold option only or both sides of the collar can be simultaneously closed out.

**6.4 Options hedging of floating rate debt** with an exercise rate greater than 2.00% above the equivalent period interest rate is not to be counted as part of the fixed rate cover percentage calculation. For example, a two-year cap at 6.00% would only count as a fixed rate hedge if the underlying swap rate was greater than 4.00%.

- 6.4.1 Forward rate agreements ("FRA").

## **7 Foreign exchange risk management**

Transactional foreign exchange (FX) risk is the risk of changes in currency exchange rates between ordering and payment for goods and services resulting in a negative impact on AUT, for example, AUT has direct exposure to foreign exchange movements due to the regular purchase of materials, publications and equipment denominated in a foreign currency. The main exposures are against the United States dollar.

The objective of foreign currency transactional risk management is to ensure that changes in foreign currency exchange rates do not materially impact the financial position, profitability, or cash flows of AUT.

AUT also has an economic (indirect) exposure to foreign exchange movements due to its substantial number of International students. However, this is not a direct transactional FX risk in that International student fees are expressed in New Zealand currency. This risk is recognised as part of the business risks of AUT and is managed through the capital structure and re-pricing of fees on an annual basis.

#### **7.1 Policy**

- 7.1.1 All committed foreign exchange exposures greater than NZ\$ 500,000 (equivalent) on an individual basis, and due in less than 12-months, must be hedged at time of commitment, or when deemed to be highly probable by the TMC.
- 7.1.2 Foreign exchange exposures smaller than NZ\$ 500,000 (equivalent) will be transacted at the relevant spot rate when the commitment falls due.
- 7.1.3 All hedging beyond 12-months requires prior approval of Council.

### **8 Working capital / Liquidity risk management**

Liquidity risk is the risk that, because of a mismatch between cash inflows and outflows, AUT is unable to meet its financial obligations.

#### **8.1 Policy**

Liquidity risk is managed by:

- 8.1.1 Monitoring expected cash flows through the preparation of rolling cash forecasts - daily for the month ahead, weekly for three months ahead, monthly for the year ahead and annually for five (5) years ahead.
- 8.1.2 Arranging committed facilities of at least 102% of the maximum forecast borrowing requirement in the next 12-months, albeit recognising the seasonal change in debt levels through the year.

### **9 Counterparty / credit risk management**

This is the risk that a counter party in a treasury transaction is unable to meet its contractual commitments. The assessment of this risk is measured by a credit rating from recognised rating agencies.

#### **9.1 Policy**

AUT (for the purposes of this clause being Auckland University of Technology and AUT Ventures Limited) will only conduct treasury transactions (including investment, borrowing and interest rate/foreign exchange) with Council approved counterparties. Unless otherwise approved by the Council, counterparties will be banks with a Standard and Poors or Moodys long term credit rating of A or above.



AUT Foundation will only conduct treasury transactions (including investment, borrowing and interest rate/foreign exchange) with AUT Foundation Board approved counterparties. Unless otherwise approved by the Board, counterparties will be banks with a Standard and Poors or Moodys long term credit rating of A or above.

Credit risk is managed by:

9.1.1 Limiting the amount of treasury exposure (excluding borrowing) to any one counterparty to the greater of 80% of total weighted exposures or NZ\$ 20M.

9.1.2 AUT personnel may only transact with authorised counterparties.

## 10 Operational Risk Management

Operational risk is the risk that AUT may suffer financial loss as a result of the operational activities of its treasury function. Operational risk arises from mismanagement, error, fraud, unauthorised activities and inappropriate use of financial instruments, products, and techniques.

Operational risk is managed by setting in place trained staff, procedures, control points and authorisations to limit the occurrence thereof. This document forms part of the management of this risk.

Treasury procedures with appropriate controls are required to minimise risks through unauthorised treasury activity or unintentional error. The key internal controls are:

- 10.1 Definition of roles, responsibilities, and delegated responsibilities. These are defined within this document - see Treasury Organisational Structure.
- 10.2 Segregation of duties. Within the procedures the responsibilities are defined to ensure dealing, confirmation, settlement, and accounting for treasury transactions are effectively separated. This does not mean that all activities are to be performed by separate personnel as the cost involved would be inappropriate, but rather that independent checks are introduced to verify details and authorities.
- 10.3 Systems and management information. AUT has established and maintains computer systems/procedures with appropriate controls. AUT also produces management reports of treasury positions and performance.
- 10.4 Documentation of procedures.
- 10.5 A review of, with potential to tender, banking facilities at least every five (5) years; Ensuring that AUT's loan raising procedures comply with the statutory provisions, delegated authorities, and accepted practice.

Specifically, for foreign currency and interest rate transactions, the key internal controls include:

- 10.6 All foreign currency and interest rate transactions entered into must specifically relate to an underlying financial market exposure of the University.
- 10.7 All financial market transactions must be carried out under the authorities specified in this policy.
- 10.8 At least two competitive quotes must be obtained for foreign exchange contracts over NZ \$500,000.
- 10.9 A list of personnel authorised to undertake on the University's behalf must be submitted to the University's bankers detailing the types of financial instruments those personnel may transact and the transaction limit pertaining to those instruments.
- 10.10 All financial market transactions must have a clear audit trail.

- 10.11 All deal/drawdown/investment sheets need to be signed by the delegated signatories, matched to bank confirmation, and filed.

## **11 Reporting**

- 11.1 Full accounting records of the University's financial market transactions must always be maintained to ensure compliance with PBE IPSAS.
- 11.2 Management reports (as outlined in **Appendix 3**) must be generated to ensure that management and the University Council, including the Finance and Audit Committee can be certain that prudential cash management, investment and risk control limits are being followed.
- 11.3 The monthly financial reporting to Council shall confirm compliance with the Treasury Management Policy and shall detail any breaches of policy. For the absence of doubt, fraud (of any size or nature) is a serious breach of policy.

## Appendix One A– Delegated Authority Framework

This Appendix includes Council delegations to the Vice Chancellor under sections 285 and 286 of the Education and Training Act 2020.

Authorisation for the following activities are as follows:

|   |   |
|---|---|
| <b>Establishment of Bank Accounts</b>                           | Vice-Chancellor   |
| <b>Sign Cheques/Bank Drafts</b>                                 | Vice-Chancellor, together with one senior staff member, or by any two senior staff members who are authorised to sign cheques/bank drafts. The Vice Chancellor advises Council that authorised senior staff members are the Deputy Vice Chancellor, Chief Financial Officer, Corporate General Counsel and Governance, and Director of Financial Services.                                  |
| <b>Direct Credits</b>   | Vice-Chancellor, together with one senior staff member, or by any two senior staff members who are authorised to sign cheques/bank drafts. The Vice Chancellor advises Council that authorised senior staff members are the Deputy Vice Chancellor, Chief Financial Officer, Corporate General Counsel and Governance, Director of Financial Services, Group Director – People and Culture. |
| <b>Loan Drawdown</b>  | Vice Chancellor   |
| <b>Money Market Investments</b>                                 | Vice Chancellor   |
| <b>Forex Transactions</b>                                       | Vice Chancellor   |
| <b>Fixed Term Borrowings<br/>(inc. derivative transactions)</b> | Vice Chancellor   |
| <b>Finance and Operating Leases</b>                             | Vice Chancellor –amounts up to two million dollars (\$2M).  |
|   | Note: Council can approve amounts greater than two million dollars (\$2M).  |

## Appendix One B– Delegated Authority Framework

This Appendix includes Council approval of delegations by the Vice Chancellor to University staff under section 286 of the Education and Training Act 2020.

|   |  |
|---|--|
| <b>Loan Drawdown</b>  | Director of Financial Services: amounts up to two million dollars (\$2M).<br>Chief Financial Officer: amounts up to ten million dollars (\$10M). |
| <b>Money Market Investments</b>                                 | Director of Financial Services: amounts up to two million dollars (\$2M).<br>Chief Financial Officer: amounts up to ten million dollars (\$10M). |
| <b>Fixed Term Borrowings<br/>(inc. derivative transactions)</b> | Chief Financial Officer: amounts up to twenty million dollars (\$20M).   |
| <b>Finance and Operating Leases</b>                             | Chief Financial Officer: amounts up to one million dollars (\$1M).   |

## Appendix Two - Banking Facilities and Instruments

On 4 December 2019, Auckland University of Technology entered into three separate revolving advance facility agreements (and the accompanying negative pledge deeds) with the following banks:

| <b>Name of Bank</b>   | <b>Facility Limit</b> | <b>Final Maturity Date</b> |
|---|-----------------------|----------------------------|
| ANZ Bank New Zealand Limited                                  | \$55 million          | 31 January 2025            |
| Industrial and Commercial Bank of China (New Zealand) Limited | \$55 million          | 31 January 2027            |
| Westpac New Zealand Limited                                   | \$110 million         | 31 January 2025            |

These facilities have been established in accordance with the conditions of the Consent to Borrow granted by the Secretary for Education, under section 192 (4) (d) and (7) of the Education Act 1989.

## Appendix Three - Management Reports

| <b>Report</b>  | <b>Prepared By</b>   | <b>Reviewed By</b>   | <b>Frequency</b>  |
|--|--|--|-------------------|
| *3-year cashflow forecast updated annually           | Director of Financial Services                                 | Vice Chancellor<br>Chief Financial Officer                                   | Annual            |
| *12-month cashflow forecast by month updated monthly | Financial Accounting Manager                                   | Chief Financial Officer<br>Director of Financial Services                    | Monthly           |
| Monthly cashflow forecast by day                     | Treasury<br>Banking Officer                                    | Director of Financial Services<br>Financial Accounting Manager               | Daily             |
| *Statement of Cash Flows                             | Financial Accounting Manager                                   | Vice Chancellor<br>Chief Financial Officer<br>Director of Financial Services | Monthly           |
| Counterparty exposure                                | Treasury<br>Banking Officer                                    | Chief Financial Officer<br>Director of Financial Services                    | Monthly           |
| *Debt Term and Re-pricing Profiles                   | Director of Financial Services                                 | Chief Financial Officer  | Monthly           |
| Foreign Exchange Transactions                        | Director of Financial Services                                 | Chief Financial Officer  | Daily             |
| *Statement of Comprehensive Income                   | Financial Accounting Manager                                   | Vice Chancellor<br>Chief Financial Officer<br>Director of Financial Services | Monthly           |
| *Balance Sheet                                       | Financial Accounting Manager                                   | Vice Chancellor<br>Chief Financial Officer<br>Director of Financial Services | Monthly           |
| Schedule of Projected Capex Payments                 | Financial Accounting Manager<br>/ Director - Asset Development | Chief Financial Officer<br>Director of Financial Services                    | Quarterly         |
| Covenants as per TEC and lender(s)' requirements     | Director of Financial Services                                 | Chief Financial Officer  | As per facilities |

\*Received by Council