

# Cash Reserves and Ring-Fencing Policy

## Audience and scope

This policy applies to Te Pūkenga Council members and all employees of Te Pūkenga, including contracted staff, consultants and secondees providing services for Te Pūkenga, and those on fixed term contracts (collectively referred to as **Employees** in this policy document).

## Approval details

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Approval authority	Council	Date of approval	15 March 2022
Policy sponsor (has authority to make minor amendments)	Director Finance	Policy owner	Chief Executive
Contact person	Phillip Jacques	Date of next review	30 June 2023

## Amendment history

Version	Effective date	Created/reviewed by	Reason for review/comment
1	1 December 2020		Initial policy
2	1 April 2022	Director Finance	Reformatting to new template and revised terminology

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## Cash Reserves and Ring-Fencing Policy

### 1. Purpose

The purpose of this policy is to explain to Te Pūkenga cash reserves and ring-fenced reserves. As part of the Reform of Vocational Education (RoVE), Cabinet directed that cash amounts accumulated by existing Institutes of Technology and Polytechnics (ITPs) at the time of the establishment of Te Pūkenga, should be ring-fenced in Te Pūkenga, for use within the regions in which they had been accumulated. The Cabinet decision is as follows.

This policy sets out, in relation to ring-fenced reserves:

- high-level principles governing the arrangement
- the definition of the specific balance sheet items included in the ring-fence
- the methodology by which ring-fenced amounts are initially determined
- the definition of “region” for the purposes of the ring-fencing policy
- the uses to which ring-fenced amounts may be put
- control and decision-making powers in relation to the use of the ring-fenced amounts
- how the ring-fenced amounts are held, managed and disclosed
- treatment of ring-fenced amounts in any security arrangements supporting centrally arranged borrowing
- the time period over which the reserves would persist.

### 2. Te Pae Tawhiti

The Council of Te Pūkenga acknowledges that this policy has been adopted while there is ongoing work being carried out to consider how Te Pae Tawhiti - Te Tiriti o Waitangi Excellence Framework should be fully embedded in the policy. The Council notes that Te Pūkenga is still on its transition journey and, as it matures, this policy and others will be reviewed to ensure they align with the new operating model and reflect Te Pae Tawhiti best practice.

### 3. Principles

#### 3.1. High Level Principles

The following high-level principles will be applied to the ring-fencing:

- The Cash Reserves Ring-fencing Policy applies to cash, cash-equivalents, and liquid investments, measured on a net basis. It does not apply to other “assets” or “reserves”.
- The Policy is applied to cash reserves (as defined) brought into Te Pūkenga at the time of its establishment, from the predecessor ITP i.e. cash reserves as at 31 March 2020.
- Ring-fenced amounts are to be used solely in the principal region(s) in which they were accumulated by their predecessor ITP, which is the core region in which the predecessor region was located and operated, and with which it was associated.

- Uses to which the ring-fenced amounts may be put should be subject to the minimum of restrictions, in line with the way in which they would have been available for use in their predecessor ITP (i.e. it is treated as a general cash reserve), subject to the “spent in region” test and the general requirement that the subsidiaries operate within a budget approved by Te Pūkenga and the framework for Reserved Matters established by the company’s constitution.
- Release of ring-fenced amounts is at the discretion of Te Pūkenga Council and management, with any approval rights being within the relevant delegation.
- Existing restricted cash funds (e.g. bequests specifying a particular use of funds) are excluded from this policy and are left unchanged.
- The ring-fencing should not be an opportunity to centralise losses/liabilities and localise surpluses/assets.
- While a methodology for determining the initial reserve is prescribed, Te Pūkenga reserves the right to change the methodology in the face of circumstances not covered by the methodology.

### 3.2. Definition of items for inclusion in the ring-fence amounts

The ring-fencing policy is restricted to cash, cash-equivalents and other financial instruments and investments, measured on a net basis. It therefore does not apply to, inter alia:

- tangible assets such as property, plant and equipment
- intangible assets such as intellectual property or software
- accounting reserves.

### 3.3. Determining the initial ring-fenced amount

The starting ring-fenced amount was calculated in accordance with the following methodology.

	<b>Item</b>	<b>Notes</b>
Starting point	Cash, cash equivalents, derivatives (net) and other financial instruments and investments	Per audited accounts as at 31 March 2020
Minus	Debt	Per audited accounts as at March 2020, includes overdrafts, term debt, mortgages etc. Includes both Crown debt and commercial debt
Minus	Restricted funds	Bequests with specific purposes etc. as disclosed in the predecessor ITP’s Annual Report and Accounts
Equals	Net Cash	

Minus	Student fees in advance	As of 1 April 2020, most student fees for 2020 will have been received, but the teaching for which payment was made would be only partially delivered. An amount representing that undelivered portion will need to be excluded from the ring-fenced reserve.
Minus	Refunds due to students and not yet paid	
Minus	Crown claw-back amounts not yet paid	If amounts are to be clawed back, but haven't yet been paid, they do not represent part of a "long-term reserve".
Plus/Minus	Any other wash-ups on SAC and other Crown funding	
Minus	Allowance for working capital	2 months' operating expenditure, calculated as the average from 2019, and the 2020 budget.
Minus	Capital expenditure commitments	
Minus	Ad hoc commitments not included above (and to be decided on a case-by-case basis)	This is a catch all and could include items such as unpaid restructuring costs, legal settlements etc.
<b>Equals</b>	<b>Initial ring-fenced cash reserve</b>	

There may be specific circumstances not contemplated above, which will need to be dealt with on a case-by-case basis, in accordance with the high-level principles and intent of the table above.

#### 3.4. Estimates and wash-up of initial ring-fenced cash reserve

On or about 1 April 2020, each subsidiary with cash reserves that might be sufficient to lead to ring-fencing will calculate an estimated ring-fenced amount, in accordance with the methodology above, that shall become subject to this policy. Cash may be drawn from this initial amount in accordance with this policy.

Once the disestablishment audit has been completed, Te Pūkenga will perform a wash-up calculation, to calculate the correct amount that should have been set aside on or about 1 April 2020. If the estimated amount was too high, the ring-fenced cash reserve will be reduced to the correct amount; if the estimated amount was too low, the balance will be added to the ring-fenced cash reserve from the subsidiary's non-ring-fenced cash balances.

### 3.5. Treatment of the Ring-Fenced Cash Reserves Over Time

Ring-fenced cash reserves are established as a one-off reserve, as a result of the creation of Te Pūkenga and is in relation to the cash and equivalents brought into Te Pūkenga group from the predecessor ITPs, on the day of Te Pūkenga establishment.

No amounts (e.g., cash operating surpluses, proceeds of asset sales) are to be added to the ring-fence over time, other than in accordance with the wash-up process set out above.

Amounts cannot be “borrowed” from the ring-fence (i.e. drawn from the ring-fenced amounts and then repaid); once drawn from the ring-fence, they are permanently drawn.

Any income derived from the ring-fenced amounts is not retained within the ring-fence.

The ring-fencing mechanism shall continue in effect until the ring-fenced amounts are reduced to zero.

### 3.6. Uses of Ring-fenced Cash Reserves

The ring-fenced amounts should function as closely as possible to the way in which a cash reserve would have been used in a predecessor ITP. Ring-fenced amounts could therefore be allocated to:

- routine capital expenditure e.g. ICT hardware and software, buildings, equipment (teaching and other), programme and materials development
- major capital projects (of whatever nature)
- building maintenance
- investment in building or maintaining capability
- any local component of a wider Te Pūkenga investment project (for instance, a major systems replacement that provides a capability needed by the regional operation)
- operating losses
- change and restructuring costs
- settling of one-off/exceptional costs.

### 3.7. Definition of “Region”

The Cabinet Minute refers to ring-fenced amounts only being spent in the “relevant region”. For these purposes, the relevant region will be the home or core regions in which the predecessor ITP operated. This would, for example, mean Southland for SIT; Christchurch, Timaru and the whole of Canterbury for Ara; the whole of the Bay of Plenty, and Rotorua and Taupo for Toi Ohomai; Hawkes Bay and Eastland for EIT; Whanganui, Manawatu and the Wairarapa for UCOL.

In the case of the Open Polytechnic of New Zealand, “region” is not a relevant concept for a nationwide provider of on-line learning. For these purposes therefore, “region” will be deemed to be nationwide and for the purposes of developing distance learning capability or delivering distance learning.

### 3.8. Practical Management of Ring-fenced Cash Reserves

Ring-fenced amounts, once identified, will be held in separate bank accounts, or as separately identifiable deposits or liquid investments.

Te Pūkenga may determine at any time whether these amounts are to be held by the relevant subsidiary or managed by Te Pūkenga central treasury function on behalf of the subsidiary company.

Te Pūkenga and/or any of its subsidiaries with a ring-fenced cash reserve should be able to identify and report on a day-to-day basis on any drawings from the reserve and the amounts still held as a ring-fenced cash reserve.

Ring-fenced cash reserves will continue to be subject to existing security arrangements which already cover the relevant amounts.

### 3.9. Authority to access Ring-fenced Cash Reserves

Approval to use ring-fenced amounts is a matter reserved to Te Pūkenga parent entity, and will be provided in accordance with this policy, considering the individual circumstances of the subsidiary company (financial or otherwise), the Institute's strategy, Te Pūkenga capital and asset management plan, and regional priorities as reflected in these.

Any such approvals will be given in accordance with Te Pūkenga delegations framework, as applicable to the nature of the expenditure for which amounts are to be released from the ring-fence (e.g., Te Pūkenga Chief Executive (CE) will be able to give approvals for use of ring-fenced amounts for capital expenditure, up to the CE's delegation for capital expenditure; amounts above this threshold will require authorisation by the Council).