



## **Finance and Accounting Manual**

### **Internal Loans Policy**

**Approved by:** Investment and Commercialisation Committee on 8 November 2006

**Date of effect:** 1 December 2006

#### **OVERVIEW**

##### **1. Policy**

Internal Loans represent lending transactions in which funds are provided on a quasi-commercial basis to operating units within the overall University financial framework. Interest is charged on all Internal Loans, and incorporated in the repayment mechanism.

Given the University's limited financial resources, the aggregate Internal Loan portfolio is not to exceed more than 10% of the University's Long Term Investment Funds (which as at end-September 2006 was approximately \$800m including Foundation funds). In the event that Loan requests, at any time, exceed this upper limit, competing applications will be assessed on the strength of the business case submitted in support of requests, with a higher weighting given to strategically important projects.

Approved Loans are funded from Investment Funds and are generally sourced from the Cash Pools. Higher risk Loans may be made from the Discretionary Funds portfolio.

##### **2. Categories of Internal Loan**

Internal Loans fall into the following broad classifications:

- **Major Long-Term**

These loans finance large, cash flow generating projects, of broad significance to the University, which are beyond the immediate resources of the borrower. Loan repayments incorporate interest and principal components over the agreed term.

In cases where the project does not generate significant cash flow, departments will be required to provide security in the form of appropriate bequests, or other departmental resources, to ensure repayment can be funded.

- **Accommodation**

These are mostly bridging finance arrangements of under \$1 million, with a term of less than seven years and incorporating interest and principal repayment.

Loan requests not consistent with the above will only be considered under special circumstances.

## **LOAN APPROVALS**

### **3. Approval Process**

All Internal Loans up to a value of \$5m are approved by the Chief Financial Officer. Loans in excess of \$5m require the approval of the Vice-Chancellor. A register of Loan approvals is maintained by the Investment and Capital Management Office (ICM) and reported twice yearly to the relevant Senate sub-Committee (either the Investment and Commercialisation Committee or the Finance and Infrastructure Committee).

Loan applicants are required to prepare a business case for review and evaluation by the ICM, supported by financial accounts and budgets and which specifically address the following:

- i) The reasons for the Loan request
- ii) Broader University benefits
- iii) Strategic alignment at the University/Faculty level
- iv) The source of the capital repayments
- v) The source of the interest payments
- vi) Any security to be provided
- vii) The proposed term of the Loan.

Subject to a satisfactory assessment by ICM and after agreement on terms, ICM will prepare a proposal and recommendation for submission to the relevant delegated authority – i.e. either the Chief Financial Officer or the Vice-Chancellor.

## **FINANCIAL MATTERS**

### **4. Term**

The term is determined by the category of Loan. In general, Loans are to be maintained within a 10 year repayment timeframe. Bridging Loans are to be kept within 7 years.

### **5. Lending Rates**

Lending rates are set by ICM and reflect the opportunity cost of diverting investment capital to internal operating uses. In most instances, funds provided will carry a fixed interest rate at an indicative margin of 1% over the equivalent term bank bill swap rate.

### **6. Repayments**

No Loan is to be entered into without an adequate source of funds for repayments. Preference is for a credit foncier repayment profile.

## **CONTACT AND REVIEW**

### **7. Contact**

Unit: **Investment and Capital Management**  
Phone: (02) 9351 2215  
Fax: (02) 9351 3753

### **8. Review**

The Internal Loan Policy will be reviewed annually and on an ad hoc basis if required. The Chief Financial Officer will approve changes to policy and other procedural amendments as required.