Debt Management Procedure

Section 1 - Purpose

(1) This procedure outlines the management of the University of Newcastle (University) debt facilities to ensure compliance with facility agreements and appropriate management of the use of debt to achieve efficient use to minimise interest expenditure and align debt use to appropriate organisational activities.

Section 2 - Scope

(2) This procedure applies to all debt facilities utilised by the University, including overdraft facilities.

Section 3 - Audience

(3) This procedure must be read and understood by Financial Services staff involved with treasury processes and Infrastructure and Facilities Services (IFS) project staff who manage revenue generating project activities.

Section 4 - Overview

(4) The University manages several debt / credit facilities that support the financial operation of the University. The implementation and management of these facilities is defined by University delegations. All facilities for the borrowing of funds incur interest expenditure. This procedure seeks to ensure the utilisation of these facilities is undertaken to best support University operations with consideration for the interest expenditure incurred in its utilisation. Some facilities may also include a non-utilisation (commitment) fee which must be considered also.

Section 5 - Facilities

(5) The University uses credit and debt facilities to manage capital and operating cash requirements and commitments.
Overdraft facilities are intended for utilisation in circumstances where unexpected incoming cash delays are experienced and short-term (i.e. one day) cash shortfalls may occur.

(6) The University uses debt facilities for capital projects which support revenue generating activities, where the return on investment is sufficient to meet the financing costs of the debt and generate positive financial returns, outside of its normal operating activities (i.e. teaching).

(7) Current facility limits are managed by Financial Services.

Section 6 - Utilisation

Overdraft Facility

(8) Where the potential or known need to utilise the overdraft facility exists, the Manager, Financial Accounting (Treasury & Revenue), must seek approval from the Chief Financial Officer for the potential/expected utilisation of the overdraft, in line with delegation A17. In seeking approval, an outline of the reasons and cashflow projections for the forward two weeks is required.

Debt Facility

(9) The identification of capital projects which are eligible for debt funding should be identified during the business case process, led by the relevant business unit (typically IFS or Digital Technology Solutions (DTS)), and supported by Financial Services.

(10) Where an approved capital project has been identified as meeting the requirements for debt funding and the facilities exist to support the capital expenditure, IFS and Financial Services will confirm the project code and expected cashflow requirements for the project. Updated cash phasing is to be provided by the relevant business unit on a monthly basis to the Manager, Financial Accounting (Treasury & Revenue).

Section 7 - Drawdown (debt facility)

(11) The Manager, Financial Accounting (Treasury & Revenue) will review the monthly capital project phasing for 'debt funded' projects and assess the expected capital expenditure to determine expenditure levels. The University will drawdown on debt facilities for each $1m spent on the 'debt funded' project.

(12) The Manager, Financial Accounting (Treasury & Revenue) will prepare the drawdown request and include a WIP summary for the project spend and existing facility utilisation, for approval, to the Associate Director, Corporate Accounting and Treasury and the CFO.

Section 8 - Interest Calculation

(13) The Manager, Financial Accounting (Treasury & Revenue) is responsible for accruing interest expenditure for the debt facility, both utilised and utilised interest expenditure monthly. Interest is charged on a three-monthly basis. Purchase orders are used to manage planned expenditure for interest.

Section 9 - Repayment (debt facility)

(14) Repayment of utilised debt facilities is based on debt funded project status and overall funding requirements of the University. Interest expense is only capitalised for projects during their construction, up to the point of commissioning the asset.

(15) Determination of overall funding requirements is managed through cashflow forecasting and modelling by the Treasury Team, supporting the Financial Planning and Analysis Team for longer term projections within the Long-Term Financial Plan (LTFP) and budget/forecast processes.

Section 10 - Reporting

(16) The University's debt facility agreement requires the following annual reporting:

a. University Budget – the Common Terms Deed requires the University to submit the annual budget no later than

60 days after the end of each financial year.

b. Financial Reports (Annual Report including financial statements) – the Common Terms Deed requires the University to submit the annual report no later than 180 days after the end of each financial year.

(17) The Manager, Financial Accounting (Treasury & Revenue) is responsible for submitting the above documents, within the required timeframe, via email.

Section 11 - Definitions

(18) In the context of this document, the following definitions apply:

a. Overdraft facility – A borrowing facility that has an approved credit limit and is linked to a bank account and can be drawn on at any time.
b. Debt facility – A financing arrangement providing revolving credit loans for a defined period. It can be drawn on based on terms agreed under the facility, usually with a two-day notice period with minimum drawdown amounts.
c. Interest expenditure – is the cost incurred for borrowed funds, calculated based on the terms of the facility agreement.

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Enquiries Contact	Michael Di Rienzo Chief Financial Officer Financial Services

Glossary Terms and Definitions

"University" - The University of Newcastle, a body corporate established under sections 4 and 5 of the University of Newcastle Act 1989.

"Staff" - Means a person who was at the relevant time employed by the University and includes professional and academic staff of the University, by contract or ongoing, as well as conjoint staff but does not include visitors to the University.