Policy Directive: compliance is mandatory

Borrowings Policy Directive

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Summary
The Borrowings Policy Directive prescribes how the borrowing and lending activities, from external parties, will be managed within SA Health.

Keywords

Policy history
Is this a new policy? Y
Does this policy amend or update an existing policy? N
Does this policy replace an existing policy? N

Applies to
All SA Health Portfolio
Shared Services SA

Staff impact
All Staff

EPAS compatible
N/A

Registered with Divisional Policy
Yes

Contact Officer

Policy doc reference no.
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Borrowings Policy Directive

Version V1.0
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1. **Objective**

This policy directive prescribes how the borrowing and lending activities, from external parties, will be managed within SA Health, in accordance with Treasurer’s Instructions, Accounting Standards and other regulatory requirements.

2. **Scope**

This policy directive is applicable to the entire SA Health portfolio.

3. **Principles**

The following principles must be followed:

- Loan instalments must be paid in a timely manner, i.e. either before or on the due date for payment.
- Borrowing and lending balances must be reconciled monthly in the Oracle Corporate Systems General Ledger (Oracle GL).

4. **Detail**

The following outlines the borrowing and lending arrangements for SA Health.

4.1. **Administrative Units**

In accordance with Treasurer’s Instruction (TI) 8.18 *Financial Authorisations*, administrative units must not lend or borrow monies from another administrative unit without the approval of the Treasurer, or Treasurer’s delegate.

Cabinet authorised the Treasurer to issue a mandate to public sector agencies for the use of services provided by the South Australian Government Financing Authority (SAFA); unless an exemption was sought.

4.2. **Types of Loans**

SA Health currently operates two types of borrowings which occur between the Department for Health and Ageing (the department) and the Local Health Networks/SA Ambulance Service (LHN/SAAS), being:

4.2.1. **Type 1 – Back-to-back Loans**

Back-to-back loans are an arrangement between the department and the LHN/SAAS, where the department is the conduit between the Department of Treasury and Finance (DTF) and the LHN/SAAS. When arranging a back-to-back loan, prior approval must be sought through the department, and it must be in accordance with the LHN/SAAS delegation of authority.
Under a back-to-back loan arrangement, the department will have a debt arrangement with DTF, and the LHN/SAAS will have an equal and corresponding debt arrangement with the department. These loans are interest bearing. Where this type of arrangement exists:

- The department will reflect both a loan receivable from the LHN/SAAS (asset) and a loan payable to DTF (liability).
- The LHN/SAAS will reflect a loan payable (liability) to the department.

4.2.2. Type 2 – Aged Care Loans

Aged care loans were originally established for the purpose of constructing new buildings, or re-developing existing buildings, which would result in an increase of new aged care bed licences to aged care facilities. These loans were initially established through HomeStart Finance, and continue to be interest bearing.

However, the department has since taken over the loan arrangement from HomeStart Finance; that is, the loan arrangement is now between DTF and the department. For these loans, HomeStart Finance remains as the administrator of the current aged care loans, and will continue to do so until their maturity.

Only those LHNs who had applied for aged care loans under the previous HomeStart Finance scheme remain under this arrangement with the department. All new aged care loans are arranged through the department and fall under the Type 1 ‘back-to-back’ arrangements as outlined in 4.1.1 above.

4.3. Loans Payable Instalments

TI 8.7.2 states ‘The Chief Executive has a reasonable expectation that sufficient financial resources will be available to meet commitments as they fall due’. Consequently, SA Health has a responsibility to ensure that loan payable instalments are paid in a timely manner.

4.4. Reconciliations

Borrowing and lending balances are to be reconciled monthly to the Oracle GL, with supporting documentation attached; e.g. loan schedules/advance agreements/HomeStart Finance statements. Reconciliations are to be performed in accordance with the Balance Sheet Reconciliation Policy and associated procedure.

Annually, Financial Accounting staff will undergo a confirmation process to ensure that agreed balances are reported by both the LHN/SAAS and the department.

5. Roles and Responsibilities

5.1. Financial Accounting

Financial Accounting is responsible for ensuring:

- procedures have been followed;
- the integrity of the general ledger is maintained;
- monthly reconciliations to the loan schedules, or other such supporting documentation, are appropriately performed;
- annual loan confirmations are sent to, and received from, each LHN/SAAS; and
- borrowings, and their related costs, are accurately disclosed in the Annual Financial Statements.
5.2. LHN/SAAS

The LHN/SAAS is responsible for ensuring:
> all appropriate legal requirements are met in relation to contract arrangements or deeds;
> the loan is authorised in accordance with their associated delegations of authority;
> loan repayments are made in a timely manner; and
> payment schedules, where applicable, are submitted to Financial Accounting in a timely manner.

5.3. Financial Business Advisory Service

Financial Business Advisory Service (FBAS) will work in collaboration with LHN/SAAS to ensure business cases are developed.

6. Reporting

Borrowings and their related costs must be accurately disclosed in the Annual Financial Statements.

7. EPAS

N/A

8. Exemption

N/A

9. National Safety and Quality Health Services Standards

N/A

10. Risk

Non-compliance with this policy directive could result in unauthorised lending activities, and incorrect recording of lending activities in the general ledger.

11. Evaluation

Compliance with this policy directive will ensure that unauthorised lending activities are not undertaken and that lending activities are recorded correctly in the OCS GL.
12. Definitions

In the context of this document:

- **administrative unit** means a government controlled entity (i.e. the department), established or continuing in existence, as stated in the *Public Sector Act 2009*.

- **borrowing (lending)** is to obtain, or receive, money on loan with the promise, or understanding, that it will be repaid. Borrowing may be classified as either current or non-current, depending on the time they are to be settled, and are disclosed in the Statement of Financial Position.

- **borrowing costs** may include interest, finance costs, foreign currency, and other costs incurred by an entity in connection with the borrowing of funds, and are disclosed in the Statement of Comprehensive Income.

- **public authority** means a government department, or a statutory authority (TI 1 para.1.6.7 *Interpretation and Application*).

Currently there are seven Public Authorities within SA Health: the Department for Health and Ageing (the department), Central Adelaide Local Health Network (CALHN), Southern Adelaide Local Health Network (SALHN), Northern Adelaide Local Health Network (NALHN), Country Health SA Local Health Network (CHSALHN), Women’s and Children’s Health Network (WCHN) and SA Ambulance Service (SAAS).


- Balance Sheet Reconciliation Policy

14. References, Resources and Related Documents

- Governance and Delegations Systems (GADS)
- LHN/SAAS Delegations of Authority
- Treasurer’s Instruction 2 *Financial Management*
- Treasurer’s Instruction 8 *Financial Authorisations*
APPENDIX

A Procedures

A.1 Type 1 – Back-to-back Loans

1. The LHN/SAAS must submit a proposal for a new loan, along with supporting financial evaluations (e.g. Cost-Benefit Analysis) to Financial Business Advisory Service (FBAS).
2. FBAS is required to obtain approval from the Chief Finance Officer prior to forwarding the proposal to the CE, and a cabinet submission must be attached for loans sourced from DTF.
3. Once the proposal has been evaluated, the FBAS officer will forward it to the CE for approval/endorsement.
4. The department will submit the application to DTF on behalf of the LHN/SAAS.
5. Loan payable and loan receivable are to be recorded appropriately by both the department and the LHN/SAAS (loan payable only).

Creation of the Loan

DR Cash (Statement of Financial Position)
CR Current/Non-Current Loan Payable (Statement of Financial Position)

The department is accounting for the receipt of the new loan from DTF.

DR Non-current Loan Receivable (DHA’s Statement of Financial Position)
CR Current/Non-Current Loan Payable (LHN/SAAS Statement of Financial Position)

An inter-business journal where the department is accounting for the issue of the loan to the LHN/SAAS and the LHN/SAAS is accounting for the receipt of the new loan from the department. (Please note: the cash transfer will automatically happen as part of the reconciling of the inter-business clearing accounts in each of the entity’s ledgers.)

Loan Repayments

The department will do an inter-business journal with the LHN/SAAS to recoup the loan repayment. The inter-business clearing account will net itself.

1.a DR Current loan payable (Statement of Financial Position)
    DR Interest expense (Statement of Comprehensive Income)
    (Automatically does CR Inter-business clearing a/c 39999 – LHN/SAAS)

The LHN/SAAS is making a loan repayment to the department.

1.b (Automatically does DR Inter-business clearing a/c 39999 – Department)
    CR Current loan receivable (Statement of Financial Position)
    CR Interest Revenue (Statement of Comprehensive Income)

The department is receiving the loan repayments from the LHN/SAAS.
A.2 Type 2 – Aged Care Loans

New aged care loans are no longer available from HomeStart Finance, but can be arranged through a back-to-back loan with the department and DTF.

The process identified below only applies to aged care loans which are already in existence, and will remain in place until they mature. Consequently, this procedure does not focus on the initial creation of these types of loans; rather, it outlines the maintenance of existing arrangements.

1. A debit authority for the LHN/SAAS to repay the loans occurs monthly from the bank account.
2. HomeStart Finance will provide a monthly loan statement to the department.
3. The department generates a journal to recoup the loan repayment from the LHN/SAAS – see below.

**Loan Repayment**

1.a  DR  Inter-business clearing a/c 39999 – department  
CR  Current loan receivable (Statement of Financial Position)  
CR  Interest Revenue (Statement of Comprehensive Income)  

The department is receiving the loan repayments from the LHN/SAAS.

1.b  DR  Current loan payable (Statement of Financial Position)  
DR  Interest expense (Statement of Comprehensive Income)  
CR  Inter-business clearing a/c 39999 – LHN/SAAS  

The LHN/SAAS is making a loan repayment to the department.

4. Financial Accounting will check the monthly statements, and ensure the reconciliations and General Ledger journals are performed in Oracle.

5. HomeStart Finance invoices the department for administration costs. This invoice is forwarded to the LHN/SAAS for payment via Shared Services SA.