

Loan Borrowing Policy

1 Purpose

Council recognises that loan borrowings for capital works are an important funding source for Local Government and that the full cost of infrastructure should not be borne entirely by present-day ratepayers, but be contributed to by future ratepayers who will also benefit.

This policy outlines the circumstances under which borrowing will take place.

2 Policy

Council will restrict all borrowings to expenditure on identified capital projects that are considered by Council to be of the highest priority, and which are unable to be funded from revenue. Under no circumstances will Council borrow funds for recurrent expenditure.

Council will comply with the provisions of the Local Government Act in relation to internal loans.

2.1 Objectives

The objective of Council's Loan Borrowing Policy is to:

- Ensure that all borrowings (both internal and external) are in accordance with legislative requirements.
- Minimise the cost of borrowings.
- Ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments and budgetary obligations.

2.2 Principles

Council's Loan Borrowing Policy is underpinned by the following principles:

- Council will not borrow money to fund operating expenditure. This type of expenditure should be funded through operating revenue streams.
- Council will not borrow money to fund the acquisition, replacement or renewal of assets that is expected to occur on an annual (or similar) basis at approximately the same level each year (i.e. recurrent capital works such as road resurfacing, plant replacement, etc.). This type of expenditure shall be funded through operating revenue streams.
- Where a capital project for a service that is funded by user charges (e.g. waste) is determined to be funded by way of loans, the user charge should reflect the cost of providing the service (including any loan repayments).
- Other specific capital projects, not funded by user charges, should only be considered for loan funding where the project is considered by Council to be beneficial to the majority of ratepayers.
- The term of any loan should not exceed the expected economic life of the asset being funded.
- Prior to undertaking any borrowing, Council shall assess its capacity to repay the loan, to ensure that the community is not burdened with unnecessary risk and rate / charge increases.
- Funds raised for a specific purpose as the result of levying a special rate or charge, are not to be re-allocated to other areas without justification in terms of service provision and compliance with internal loan requirements, which require Council to obtain approval from the Minister of Local Government.

- The nature of any borrowings (short or long term) and the interest rate (fixed or variable), if applicable, will take into account the purpose of the borrowings and seek to minimise interest rate exposure.
- All borrowings will be considered in line with Council's Long Term Financial Plan.
- Council's goal is to achieve a financial indicator of less than 10% for the Consolidated Debt Service Ratio, which is a key performance indicator of the Office of Local Government.

2.3 Responsiveness and Accountability

All borrowings will be subject to Council Approval. Council must identify the source of funds to cover the loan before approving any loan borrowings and acknowledge the necessary adjustments to Council's budget.

2.4 Determination of Appropriate Lending Institution – External Loans

Once a borrowing has been approved by Council, an 'Expression of Interest' (EOI) process will be conducted whereby appropriate lending institutions (Authorised Deposit Taking Institutions) will be invited to submit written quotations on Council's borrowing requirements.

Written quotations must include the:

- Interest rate
- Term of the loan
- Repayment intervals (monthly, quarterly etc)
- Repayment instalment amount and
- Any applicable fees

Council may also request an observable market benchmark, such as a percentage above the current bill rate, to assist in analysing the quotations provided.

Council will seek a minimum of three written quotations for its approved loan borrowing from Authorised Deposit Taking Institutions.

Appropriate and acceptable documentation must be provided to Council by any prospective lender during the EOI process.

The calculation process for any loan break costs must be clearly set out in the loan documentation.

The General Manager has authority to accept loan offers, subject to the borrowing amount being previously approved by Council and the requirements of the 'Loan Borrowing Policy' being adhered to.

2.5 Restrictions

Current borrowing restrictions are prescribed in the Local Government Borrowing Order which states:

"A council shall not borrow from any source outside the Commonwealth of Australia nor in any other currency than Australian currency."

2.6 Debt Service Ratio Targets

Council's target in relation to General Fund borrowings is to not exceed a Debt Service Ratio of 10% (which supports with the OLG's consolidated key performance indicator of 10%). The General Fund ratio is currently below 10%.

Council's target in relation to its consolidated Debt Service Ratio is to not exceed 10% by 2028/2029, at which time large water and sewerage fund loans, related to major infrastructure works, are fully repaid.

2.7 Access

Public access to information about Loan Borrowing will be through Council's website and Council's annual Operational Plan. Reasonable access assistance will be available to persons with special needs.

3 Definitions

Debt Service Ratio: The debt service ratio is calculated as:

$$\frac{\text{Debt service expense}}{\text{Operating revenue}}$$

Debt service expenses include interest expenses and principal repayments

4 Key Responsibilities

Position	Directorate	Responsibility
Mayor	Council	To lead Councillors in their understanding of, and compliance with, this policy and guidelines.
General Manager	Executive	To lead staff (either directly or through delegated authority) in their understanding of, and compliance with, this policy and guidelines. To approve resources to develop, implement and review this policy and guidelines.
Group Leader	Financial Services & Logistics	Outline responsibilities of person(s) whose role it will be to carry out most of the functions under the policy.
Directors	All Directorates	To communicate, implement and comply with this policy and guidelines.
Director of Business Services	Business Services	To ensure (directly or through delegation) the distribution and communication of the policy and guidelines to specified persons. To ensure (directly or through delegation) the approved policy and guidelines are available in hard copy and electronically on Council's website.
All Council officials	Council	To comply with this policy, guidelines and related procedures.

5 References

- Local Government Act 1993
- Local Government (General) Regulation 2005 (NSW)
- Ministers Borrowing Order
- Local Government Circular 07-35

6 Details of Approval and revision

- **Approval date: 22/06/2017**
- **Responsible Section: Financial Planning**
- **Superseded policies/procedures:**
- **Next review date: 22/06/2021**

Table of amendments

Amendment	Authoriser	Approval ref	Date