

Loan Borrowings Policy

LEADERSHIP

OUR COUNCIL HAS THE TRUST OF THE COMMUNITY AND WELL INFORMED DECISIONS ARE MADE TO ENSURE LONG TERM SUSTAINABILITY OF OUR SHIRE

Adoption Date:	23 May 2018
Policy Owner:	Chief Financial Officer
Next review date:	<i>2 years from adoption</i>
File Reference:	2130
Related Policies/Legislation:	<i>Local Government Act 1993 Local Government (General) Regulation 2005 Ministerial Revised Borrowing Order Local Government Code of Accounting Practice and Financial Reporting Australian Accounting Standards; and Office of Local Government Circulars</i>
Related Documents:	Long Term Financial Plan
Superseded Policy/GM Practice Note:	Loan Borrowings Policy Adopted 25 February 2009 MN66/09 Overdraft Facility Policy Adopted 25 February 2009 MN66/09

OBJECTIVES

The objective of this policy is to ensure that the use and management of Council borrowings:

- complies with the Ministerial Revised Borrowing Order dated 13 May 2009;
- is undertaken with due regard for Council's role as a custodian of public funds;
- is undertaken with the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons; and
- complies with Council's overall risk management philosophy.

Council's power to borrow funds arises from Section 621 of the Local Government Act 1993. As a custodian of public funds, Council must exercise the reasonable care and diligence that a prudent person would exercise when borrowing funds.

Council recognises that loan borrowings for infrastructure are an important funding source for local government and that the full cost of funding infrastructure works should not be borne entirely on present-day ratepayers, but also future ratepayers who will also benefit from the use of the funded infrastructure.



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This policy provides a framework for Council to borrow funds while ensuring the ongoing financial viability of Council; by not permitting overall borrowings to extend Council beyond its ability to meet future repayments and budgetary obligations.

POLICY STATEMENT

Delegation of Authority

Section 377(1) (f) of the *Local Government Act 1993* stipulates that Council cannot delegate the borrowing of money. No officer of Council is authorised to undertake the establishment of a new loan facility without the authorisation of Council. The authorisation is obtained following a formal resolution of Council.

Once this authorisation has been obtained, authority for the implementation and adherence to this policy is delegated by Council to the General Manager in accordance with the *Local Government Act 1993*. The General Manager may, in turn, delegate the day-to-day management of Council's borrowings to the Responsible Accounting Officer.

Principles for Borrowings

Council's principles for borrowings are:

1. Borrowings may only be used to fund one-off capital expenditure and not operating expenditure (which should be funded from operating revenue). Recurrent capital works (which occur on an annual basis) should not be funded by loans and should be funded by operating revenue.
2. In considering loan borrowings, Council should ensure sufficient recurrent funding is available to service the debt. This should be achieved either through debt retirement, additional revenue or a reduction in operational expenditure.
3. It is appropriate to fund significant capital works via borrowings so that the full cost of infrastructure is not only borne by present day ratepayers, but also by future ratepayers who will benefit from the use of the funded infrastructure.
4. It may be appropriate to fund certain capital projects with user charges, in which case user charges should reflect the project's costs, including loan payments.
5. The impact on Council's budget of any movement in interest rates must be actively managed.
6. The term of any loan should not exceed the expected life of the asset being funded.



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Considerations for Borrowings

To assist with making the decision on whether to undertake long-term borrowings, Council will consider:

- The financial impact of the proposed borrowing on Council's Long Term Financial Plan, Delivery Program and Operational Plan including scenario analysis in the case of changes to market interest rates; and any positive impact of the capital works funded by the proposed borrowing.
- Decisions to utilise loan borrowings should be made on a case by case basis, ensuring there is alignment with Council's strategic planning and capital program.
- Where appropriate, borrowings for infrastructure projects will require a fully costed and evaluated business plan, with all alternative considered and outcomes identified. This may also come in the form of a Masterplan or updated strategy. Where required, Council is to comply with the Office of Local Government's circular regarding Capital Expenditure Reviews.
- Internal loans should be considered as an alternative approach to funding capital expenditure. This approach would be on the basis that Council has sufficient available surplus cash within identified General Fund cash reserves which has no specific financial commitments within Council's Long Term Financial Plan
- The proposed structure of the borrowings and the proposed way in which the Council will procure the borrowings to achieve competitive and favourable terms.
- The Debt Service Ratio, which is an indicator of Council's ability to service its borrowings, should remain below 10%.

Requirements

All borrowings must be approved by Council resolution. The intention to borrow funds must be included in Council's annual Operational Plan and Budget.

Loans to Council are a charge on general income and cannot be secured over a specific project.

Council should advise the Office of Local Government (OLG) of any proposed borrowing by completing a loan borrowing forecast return. If Council subsequently changes the purpose of the loan or increases the amount, a Council resolution must be passed prior to drawing any funds. In the event of an increase, Council must also re-submit their loan borrowing return to OLG.

Council will manage its ongoing cash-flow requirements taking into consideration cash expenditure and anticipated revenues therefore should not require the use of overdraft facilities.



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Restrictions

Council is restricted, by the Ministerial Revised Borrowing Order dated 13 May 2009, to source the borrowings from Australia and in Australian currency.

Process

To minimise the cost of borrowing, Council is to seek competitive borrowing terms by way of obtaining a minimum of three quotes. This should include a quote from NSW Treasury Corporation.

The borrowing maturity profile should reflect Council's forecast repayment profile. Consideration should also be given to incorporating flexibility in borrowing covenants in case of early repayment or a need to extend the term of the loan.

Council will review all outstanding loans as part of its annual budget process to ensure there is no breach of covenants or to take advantage of flexibility in the repayment profile should Council's financial situation change over time.

Review

This Policy will be reviewed every two years upon the anniversary of its adoption or as required in the event of legislative changes. The policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy. Any amendment to this policy must be by way of Council resolution.

SCOPE

This policy applies to Councillors and staff with delegated authority to act upon the Council resolution to borrow funds.

DEFINITIONS

Capital Expenditure

Capital expenditure relates to the acquisition, upgrade or renewal of an asset. This type of expenditure is typically one-off in nature and is generally for assets such as buildings, major transport projects, land acquisitions or significant community facilities.

Operating Expenditure

Operating expenditure are costs related to ongoing service delivery, maintenance and program funding. These costs are typically recurrent in nature and do not result in the creation of an asset.

Debt Service Ratio

This ratio highlights the extent to which Council's revenue from continuing operations is required for the repayment of debt (including both principal and interest repayments).



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Variable Rate Loan

A loan that attracts an interest rate linked to a variable benchmark. In Australia variable rate loans are normally priced at a fixed margin over the Ausbond Bank Bill Rate which is the market benchmark three month interbank rate

Fixed Rate Loan

A loan that attracts a fixed pre-determined interest rate throughout the term of the loan.

Amortising/Credit Foncier Loan

A loan that is repaid over the term of the loan, normally by equal instalments due quarterly or semi-annually. Interest payments and capital repayments are normally combined and paid on the instalment date.

Interest Only Loan

A loan repaid in full on the final maturity date. The loan can be either a variable rate loan or a fixed rate loan with interest payments normally payable quarterly for a variable rate loan and semi-annually for a fixed rate loan.

RESPONSIBILITIES

Responsibilities for implementing this policy are shared between Councillors, Executive, Management, staff, contractors and suppliers as follows:

Position	Responsibility
Councillors	To ensure all loan borrowings are resolved by Council in accordance with the Local Government Act and adhere to this Policy.
General Manager	Ensure the implementation of this Policy as delegated by Council in accordance with the Local Government Act. To delegate the management of Council's Borrowings Portfolio to the Chief Financial Officer or other staff through the delegated approval process.
Chief Financial Officer	Oversee the management of Council's Borrowings Portfolio ensuring compliance with this policy. Ensure accounting controls are in place to monitor and report on Council's loan borrowings in accordance with the Local Government Code of Accounting Practice and Financial Reporting and Australian Accounting Standards.



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BREACHES OF THE POLICY

Any breach of this policy is to be reported to the General Manager and Responsible Accounting Officer immediately upon becoming aware of such breach. A written statement of the facts relating to the breach is to be prepared within two business days, including the remedial action taken or proposed to be taken.

Any suspected breach regarding a perceived conflict of interest of a delegated officer will be dealt with in accordance with the Code of Conduct Policy.

APPROVED BY:

WINGECARRIBEE SHIRE COUNCIL

23 May 2018

