

LOAN BORROWING POLICY

QUALITY CONTROL			
TRIM REFERENCES	12/14 – D18/43977		
RESPONSIBLE POSITION	Chief Financial Officer		
APPROVED BY	Council Resolution		
REVIEW DATE	1 July 2020	REVISION NUMBER	1
EFFECTIVE DATE	ACTION	MINUTE NUMBER	
29 August 2018	Public Exhibition	45889	
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1. INTRODUCTION

Council recognises that to fund capital projects, loan borrowings are an important source in 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 from the infrastructure.

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

Council will comply with the provisions of the *Local Government Act 1993* in relation to internal loans.

2. POLICY OBJECTIVE

This policy is to ensure that Council has a structured and disciplined approach to the borrowing of funds.

The objective of Councils Loan Borrowing Policy is to:

- Ensure that all borrowings (both internal and external) are in accordance with legislative requirements;
- Detail Council's planned financial management strategy for existing and future debt;
- Provide guidance as to the information that must be taken into consideration when Council is considering the use of debt;
- Minimise the cost of borrowing;
- Have regard to the long term and cumulative effects of Council's decisions;
- Ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments and budgetary obligations;

- Exercise reasonable care and diligence that a prudent person would exercise when borrowing funds; and
- To establish an ongoing loan facility to give Council the flexibility to act, when investment opportunities arise, for income producing assets.

3. POLICY SCOPE

This policy applies to all Council Officers who have authority delegated to them to borrow funds on Council's behalf and is in accordance with legislation and guidelines.

4. POLICY STATEMENT

4.1. Limitations

The Local Government Borrowing Order prescribes current borrowing restrictions:

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

In addition to this Council has determined the following limitations will apply:

- The total amount of borrowings outstanding is not to exceed 2.5 times the amount of total ordinary rates, in any one year; and
- That the total amount of borrowings outstanding is not to fall below the benchmark of the debt service cover ratio of 2.0 times.

4.2. Authorisation

- Council must have resolved to borrow funds as part of its Operational Budget before funds are borrowed
- The General Manager has authority and delegation to accept loan offers, subject to the borrowing amount being approved by Council and the requirements of this policy being adhered to.

4.3. Internal Borrowing

- Funds can be borrowed internally, within the Section 94 Reserve, only for the purpose of other Section 94 works; and
- Funds can be used from internally restricted revenues as an internal loan, instead of external loan borrowing, on the basis that the interest rate to be charged is pegged at 0.25% below the external rate. All of these borrowings must be approved in Council resolution and must be in accordance with this policy, as if it was an external loan.

4.4. Principles

- Borrowings are not a form of revenue and do not replace the need for Council to generate sufficient operating revenue to service its operating requirements;
- Council aims to finance capital works to the greatest extent possible from revenue, grants, subsidies or any specific reserves primarily established to fund capital works;
- New assets, that are income producing, may be funded from debt;

- Loan borrowings should be limited to the renewal of “lumpy” assets or new income producing assets;
- Council may borrow through any market mechanism under Section 134 and Section 135 of the *Local Government Act 1993*.
- 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.
- Council will not enter into any financing arrangements which involve the repayment of interest only;
- Council, where appropriate, may enter into a borrowing facility for a long term asset construction project;
- There will be no long term debt to finance operating activities, non-capital projects or recurring expenditure of Council;
- Council must apply to the Office of Local Government, completing a loan borrowing request issued in May each year;
- The term of the loan should not exceed the expected economic life of the asset being funded, subject to the maximum periods below. Where the borrowings have not been repaid when the asset is sold, Broken Hill City Council will first apply the proceeds of the sale to the repayment of the loan source;
- The repayment of debt as quickly as possible and frequency of repayment at least bi-annually or more frequently subject to overall budgetary constraints, maximising efficiency and interest savings; and
- The maximum period for borrowing will be set, as per the table below;

Borrowing Amount	Max Term
\$500,000 - \$1,000,000	10 years
\$1,000,000 to \$2,000,000	15 years
Greater than \$2,000,000	20 years

Variations to these periods will require a resolution of Council

4.5. Determination of the appropriate lending institution

- Once borrowing has been approved by Council, within its Operational Plan, an Expression of Interest process will be conducted whereby appropriate lending institutions will be invited to submit written quotations on Council's borrowing requirements;
 - For loans of up to \$5,000,000 will require three quotations from Institutions in accordance with the restrictions within this policy; and
 - Loans greater than \$5,000,000 will require Council to tender for the loan, which may include a borrowing facility.

- Quotations/Tenders will only be sought from appropriate lending institutions with a long term credit rating of A- or above;
- Written quotations/tenders must include;
 - Interest rate;
 - Term of the loan;
 - Repayment intervals (monthly, quarterly etc.);
 - Repayment instalment amount; and
 - Any applicable fees.
- Interest rates may be fixed or variable for the term of the loan, such as a percentage above the current bill rate;
- Appropriate and acceptable documentation must be provided to Council by any prospective lender during the quotation/tender process; and
- The calculation for any loan break costs must be clearly set out in the loan documentation

4.6. Compliance and monitoring

- A monthly reconciliation of all borrowings, will be completed by the Responsible Accounting Officer and reported to Council quarterly as a part the quarterly budget review process ; and
- Borrowing costs and borrowings will be treated in the Annual Financial Statements and all Financial Reporting in accordance with the Australian Accounting Standards.

5. IMPLEMENTATION

5.1. Roles and Responsibilities

The following Council officers are responsible for the implementation and the adherence to this policy:

- General Manager;
- Chief Financial Officer; and
- Manager Finance

5.2. Communication

This Policy will be communicated to the community and staff in accordance with Council's Policy, Procedure and Process Framework and Council's Business Paper process. Following adoption by Council the Policy will be made available on Council's website.

5.3. Associated Documents

The following documentation is to be read in conjunction with this policy.

- Asset Management Plans
- Long Term Financial Plan

- Code of Conduct

6. REVIEW

Review of this policy will incorporate relevant legislation, documentation released from relevant state agencies and best practice guidelines.

The standard review period will be every two years from the effective date. The responsible Council officer will be notified of the review requirements three (3) months prior to the expiry of this policy.

The Chief Financial Officer is responsible for the review of this policy.

7. LEGISLATIVE AND LEGAL FRAMEWORK

This policy is to be read in conjunction with the following:

- *Local Government Act 1993*
- *Local Government (General) Regulation 2005*
- Ministers Borrowing Order
- Local Government Circular 09-21

Council employees shall refrain from personal activities that would conflict with proper execution and management of Council's Loan Borrowing policy. Council's Code of Conduct provides guidance for recognising and disclosing any conflicts of interest.

8. DEFINITIONS

- **Act:** means the *Local Government Act 1993*.
- **Borrowing:** cash received from another party in exchange for future payment of the principal, interest and other finance charges.
- **Borrowing Costs:** interest and other costs that an entity incurs in connection with the borrowing of funds.
- **Borrowing Facility:** is a loan that is not drawn down (borrowed against) completely when approved, but allows for a series of timed borrowings over a period of time, up to the maximum of the facility. These are generally used for property development.
- **Council:** means the Council of the City of Broken Hill
- **Debt Service Ratio:** this is an indicator of the extent to which Council's operating revenue is committed to servicing both interest and the repayment of principal on existing loans.
- **External Borrowings:** includes raising and obtaining, in any way, money, credit and other financial accommodations from sources external to Council.
- **Fixed Interest:** an interest rate on a liability, that remains the same either for the entire term of the loan or for part of the term
- **Loan Break Costs:** costs associated with paying out a loan prior to the loan expiry date.
- **Long Term Credit rating:** is a forward looking opinion about credit risk, by a recognised and reputable rating agency, as allowed under the Ministerial Investment Order.

- **Lumpy Assets:** these are assets that when due for renewal will require funding that is greater than two years of renewal funding for that particular asset, as defined in the Asset Management Plan (AMP) and Sub-Plans. An example would be the replacing the roof on a building.
- **Ordinary Rates:** has the same meaning as determined by the *Local Government Act 1993*.
- **Security:** in accordance with the *Local Government Act 1993*, security for any loan will only be given over the future Ordinary Rates of Council.
- **Renewal Funding:** this is the annual amount of funding that is required to be raised and held, that is equivalent to straight line depreciation of the total value of the asset over the useful life of the asset, being the renewal intervention life. For roads it is 45 years, whilst 50 years is considered the failure point.
- **Variable Interest:** interest that can fluctuate over the life of the loan and is usually pegged to a benchmark rate, such as the bond rate.