



**GEORGES  
RIVER  
COUNCIL**

# **DRAFT LOAN BORROWING POLICY**

*Insert year approved/active 20xx*

## POLICY ADMINISTRATION

<b>Dates</b>	Policy approved <b>xx/xx/2018</b> This policy is effective upon its approval. Policy is due for review (up to 2 years) 06/2020
<b>Approved by</b>	Executive on XX/XX/2018
<b>Exhibition Period</b>	NA
<b>Policy Owner</b>	Chief Financial Officer, Office of the Chief Operating Officer
<b>Related Documents</b>	<ul style="list-style-type: none"> <li>• <i>Georges River Council's Operational Plan</i></li> <li>• <i>Georges River Council's Long Term Financial Plan</i></li> </ul>
<b>Appendices</b>	NA
<b>References &amp; Legislation</b>	<ul style="list-style-type: none"> <li>• Local Government Act 1993 – Part 12 – Loans</li> <li>• Local Government (General) Regulation</li> <li>• Minister of Local Government Borrowing Order pursuant to section 624 of the Act (Appendix A11, Code of Accounting Practice) Local Government Circulars and Directives</li> <li>• <i>Division of Local Government Capital Expenditure Guidelines</i></li> </ul>
<b>Document Identifier</b>	Policy #: <i>Allocated by Governance once policy is approved (includes the version number)</i> Doc #: <i>Please enter Trim/Document identification number</i>
<b>Breaches of Policy</b>	Breaches of any policy will be dealt with and responded to in accordance with adopted codes and/or relevant legislation.
<b>Record Keeping</b>	All documents and information obtained in relation to the implementation of this policy will be kept in accordance with the NSW State Records Act 1998, Georges River Council's Corporate Records Policy and adopted internal procedures.

## PURPOSE

This policy outlines Council's borrowing of funds strategy with the aim of minimising overall debt and utilising the funds primarily for projects of capital nature.

The core objective of the Loan Borrowing Policy is to ensure the sound management of Council's existing and future debt, bearing in mind Council's financial aim to have balanced annual budgets and a considered long term financial plan.

This core objective can be achieved with consideration to the following prudent measures:

- The provision of a prudential framework and documented policies for guidance of Council when considering funding options.
- Ensuring all borrowings (both internal and external) is in accordance with legislative requirements.
- Minimising the cost of borrowings via a structured procurement program.
- Ensuring the total amount of loan borrowings is sustainable in terms of Council's ability to meet future repayments and budgetary obligations.
- Meeting industry best practice in respect to the organisation's Debt Service Ratio.
- Ensuring Council's debt policy is easily and transparently communicated to all Council stakeholders.
- Providing a basis for an annual review of this policy document when Council's long term financial plan is reviewed and at any time that an out of plan borrowing is considered.
- Council raises all external borrowings at the most competitive rates.

## SCOPE

This Policy applies to borrowing of funds for infrastructure and other capital projects.

## DEFINITION OF TERMS

Term	Meaning
Debt Service Ratio	<p>The debt service cover ratio is calculated as:</p> $\frac{\text{Operating result before capital excluding interest and depreciation/impairment/amortisation}}{\text{Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)}}$ <p>This ratio measures the availability of operating cash to service debt including interest, principal and lease payments (The OLG consolidated key performance indicator is greater than 2)</p>

# POLICY STATEMENT

Council recognises that loan borrowings are an important funding source for capital works. It provides the opportunity to bring unfunded projects forward and ensures the full cost of infrastructure is not borne entirely by present-day ratepayers.

The Minister for Local Government issued a revised Borrowing Order dated 29 May 2009 pursuant to section 624 of the Local Government Act 1993, replacing the Order dated 27 September 1993. The revised Order retains the limitation on councils to borrow only in Australia and in Australian currency. All other limitations or restrictions have been removed.

## 1. Policy Framework

The purposes for which Council may borrow are:

- For any capital projects approved under Council's Long Term Financial Plan. The proceeds of any loan borrowings to be utilised to fund the following:
  - land acquisitions;
  - strategic and commercial property acquisitions;
  - new assets constructed (e.g. roads, sports/aquatic centres, sporting fields and arts centres);
  - an asset replacement (e.g. road reconstructions); and
  - an asset upgrade (e.g. footpath widenings).
- For any expenditures that would be deemed and budgeted as recurrent if there was an urgent significant public health and safety interest in requiring expenditure ahead of plan or where Council otherwise chooses to accelerate projects. Borrowings should not be used to fund general operations and maintenance projects as subsequent loan repayments will reduce funds
- As bridging finance to enable capital projects to proceed with repayment from committed asset sales or other identified funding sources.
- Prior to undertaking any borrowing, Council shall assess its capacity to repay the loan, ensuring the community is not burdened with unnecessary risk including interest rate changes.

### 1.1. Term of the Loan

The term of the loan must not exceed the expected economic life of the asset being funded, subject to the maximum periods below.

<b>Loan Borrowing Amount (\$)</b>	<b>Maximum Term</b>
500,000 – 5,000,000	5 years
5,000,000 – 10,000,000	10 years
Greater than 10,000,000	20 years

## 1.2. Debt Limits

Council shall agree a maximum debt level for any financial year, after analysis of the agreed operating ratios listed in 1.3 and verification that repayments can be funded from Council's operating budgets.

## 1.3. Debt Limit Ratios

Council's net debt outstanding at any time, both current and forecast, is to be geared to its financial capacity to service debts as determined by the Debt Service Cover Ratio.

## 1.4. Debt Management Framework

Council's debt will be procured and managed within the following framework.

- **Compliance:** Compliance with governing legislation and all internal Council guidelines in relation to debt procurement.
- **Availability:** Finance facilities are available to be drawn down when required.
- **Diversification:** No undue reliance on any one provider.
- **Cost Effectiveness:** Tender process to ensure maximum price competitiveness.
- **Interest Risk Management:** To contain the potential for financial loss from unfavourable movements in interest rates, in accordance with Council's risk management preferences.
- **Process:** All new facilities, rollover of existing facilities or refinancing, is to be procured via the Expression of Interest (EOI) process using a selective tender to major financiers active in the local government debt market.
- **External Advice:** Council may engage external financial advice in relation to loan borrowings and interest risk management.
- **Source of Finance:** All Council borrowings will be sourced from "over the counter" debt markets (i.e. bank debt market).

## 1.5. Reporting

Council will be advised on of the current loan portfolio balance including the weighted average interest rate of borrowings as part of the investment report.

As per clause 230 of the Local Government (General) Regulation 2005, Council is required to report loans drawn down within 7 days to the OLG Chief Executive.

## 1.6. Council Approval Process

There is a requirement for borrowings to be identified in Council's Integrated Planning & Reporting documents, including the legislative requirements of the Delivery Program, Operational Plan and Revenue Policy as well as Council's Long Term Financial Plan.

All borrowings will be subject to Council approval in conjunction with reviewing the Long Term Financial Plan and the proposed borrowing impact.

The proposal to Council must include:

- Life cycle business plan (of the associated asset);
- Finance snapshot of the impact on the Long Term Financial Plan; and
- Submissions report of quotations from EOI process whereby:
  - Authorised deposit taking institutions (including T-Corp) will be invited to submit written quotations, and include appropriate and acceptable documentation on Council's borrowing requirement;
  - Minimum of three (3) written quotations will be obtained for Council's approved loan borrowing from authorised institutions; and
  - Written quotations must include the following, with any loan break calculation costs clearly set out in the loan documentation:
    - Interest rate;
    - Term of the loan;
    - Repayment intervals (monthly, quarterly etc.);
    - Repayment instalment amount; and
    - Any applicable fees.

The General Manager has authority to accept loan offers, subject to the borrowing amount being previously approved by Council.

Council will be advised of the term of the loan once finalised.

The Borrowings Return form must be submitted to The Office of Local Government (OLG) by July each year, outlining Council approved loan borrowings for the following financial year.

The Finance team will periodically review the debt portfolio to ascertain if there is an opportunity for refinancing which will deliver positive outcomes to Council.

## RESPONSIBILITIES

<b>Position</b>	<b>Responsibility</b>
<i>Mayor</i>	To lead Councillors in their understanding of and compliance with, this policy and guidelines.
<i>General Manager</i>	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.
<i>Directors</i>	To communicate, implement and comply with this policy and guidelines.
<i>Chief Operating Officer</i>	Outline responsibilities of person(s) whose role it will be to carry out the functions under the policy.  To ensure (directly or through delegation) the distribution and communication of the policy to specified person(s).  To ensure (directly or through delegation) the approved policy and

	guidelines are available in hard copy and electronically on Council's website.
<i>All Council Officials (staff and contractors)</i>	To comply with the policy, guidelines and related procedures.

## VERSION CONTROL AND CHANGE HISTORY

Version	Amendment Details	Policy Owner	Period Active
1.0	<i>Loan Borrowing Policy</i>	<i>Chief Financial Officer</i>	<i>Xx/xx/2018</i>
<i>P0037.01</i>	<i>Policy - Loan Borrowing and Overdraft Facility</i>	<i>Chief Financial Officer</i>	<i>Former Kogarah City Council</i>