



LEETON SHIRE COUNCIL

Preserving the Past, Enhancing the Future

LEETON SHIRE COUNCIL POLICY

BORROWING & USE OF LOAN FUNDS

BORROWING POLICY

1. POLICY OBJECTIVES

1.1 External loan borrowings are an important source of funding for Council. The objective of this policy is to provide a structured and disciplined approach to the borrowing of funds for the purpose of funding new infrastructure and renewal of existing infrastructure.

This policy aims:

- to ensure that all borrowings are in accordance with legislative requirements;
- to minimise the cost of borrowings; and
- to ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments.

2. BACKGROUND

2.1 This Policy provides for responsible financial management on the loan funding of infrastructure capital projects by ensuring the level of Council indebtedness is within acceptable limits to Council, its ratepayers and interested external parties.

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. Whilst recognising the importance of loan borrowings, Council shouldn't place undue reliance upon loans as a source of income.

Council will restrict all borrowings to expenditure on identified capital projects that are considered by Council to be of the highest priority, and which cannot be funded from revenue, as identified by the adopted budget. In no circumstances should Council borrow funds for recurrent expenditure.

The basis for determination of the utilisation of loan funds will be as follows:

- a) Where a capital project for a service that is funded by utility or 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 the loan servicing.
- b) 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, and
- c) The term of any loan should not exceed the expected life of the asset being funded.

Borrowing will be considered as an appropriate funding source in the following circumstances:

- (a) In the context of the strategic objectives of Council.
- (b) In the context of long term financial forecasts and objectives.
- (c) As an alternative funding source for asset additions.
- (d) As a method of spreading the cost of long life (intergenerational) assets, and

The use of borrowings is an important funding source and is a useful mechanism for allocating the costs of asset replacement or creation over a time frame that reflects when residents will benefit from the assets.

Council's management of borrowing will focus on the net debt situation and consequently sound cash management practices will dictate that Council will not borrow at higher interest rates when significant funds are invested at lower interest rates. When surplus funds exist, Council will consider applying these against planned borrowings subject to consideration of maintaining adequate funds for day-to-day management and emergency situations. Management shall not speculate on interest rate movements.

The nature of any borrowings (short or long term) and the interest rate (fixed or variable) 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.

3. ELIGIBILITY

- 3.1 The authority to authorise loans and/or Council funding requirements is vested with Council by virtue of the *Local Government Act*. No officer of Council is authorised to undertake the establishment of a new loan facility without the authorisation of Council obtained following the conduct of an ordinary or special meeting of Council to discuss the proposed borrowing.

4. GUIDELINES

4.1 Policy Statement

Debt is raised to fund capital expenditure that will benefit current and future residents and ratepayers. All borrowings must be approved by Council resolution.

4.2 Principles

The following principles are to be applied when considering undertaking borrowings or other asset financing.

4.2.1 **Operating Expenditure**

Council will **not** borrow money to fund operating expenditure. This type of expenditure should be funded through operating revenue streams such as rates, fees and charges or operating grants.

4.2.2 **Recurrent Capital Expenditure**

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 such as rates and fees and charges.

4.2.3 **Borrowing Term**

The term of the Borrowing shall be set having due regard to the economic life of the asset being acquired or constructed.

4.2.4 **Borrowing limitations**

Prior to undertaking any borrowing, Council shall assess its capacity to pay, to ensure that the community is not burdened with unnecessary risk. Council shall then reassess its capacity to pay on an annual basis as part of its budgeting process. As part of this assessment, the following borrowing limitations apply:

- Total unrestricted debt servicing costs must not exceed 2% of annual general income.
- The term for all new borrowings shall be matched, where appropriate, to the life of the asset to which it relates, however no loan term shall exceed a period of 20 years.
- Council does not establish Sinking Funds for new borrowings.
- Borrowings shall be undertaken in Australia and be in Australian dollars so as to ensure the council is not exposed to foreign currency risks.
- Any borrowings will be conducted in accordance with relevant statutory requirements as contained in the *Local Government Act 1993* and the Local Government (General) Regulations 2005.

4.2.5 **Determining the Appropriate Lending Institution**

Three written quotations shall be sought, or a loan tender called, in order to determine the appropriate lending institution for any loan borrowings. Determination of the appropriate institution will be based on the interest rate and loan costs offered, the terms and conditions of the loan and the financial stability of the lender.

5. **RESPONSIBILITY/ACCOUNTABILITY**

5.1 All borrowings will be subject to Council approval.

6. RELATED POLICIES

6.1 Overdraft Policy

7. RELATED PROCEDURES

7.1 Nil

8. RELATED LEGISLATION

8.1 Local Government Act 1993 - Part 12 - Loans

Section 622 - What form may a council borrowing take?

A council may borrow by way of overdraft or loan or by any other means approved by the Minister.

Section 622 What form may a council borrowing take?

A council may borrow by way of overdraft or loan or by any other means approved by the Minister.

Section 623 Security for borrowings

1. A council may give security for any borrowing in such manner as may be prescribed by the regulations.
2. All such securities rank on any equal footing, despite any other Act.

Section 624 Are there any restrictions on a council borrowing?

The Minister may, from time to time, impose limitations or restrictions on borrowings by a particular council or councils generally despite the other provisions of this Part.

8.2 Local Government (General) Regulation 2005

Section 229 Loans to council to be charged on the council's income

The repayment of money borrowed by a council whether by way of overdraft or otherwise), and the payment of any interest on that money, is a charge on the income of the council.

Section 230 General Manager to notify borrowings to Director-General

1. Within seven (7) days after a Council borrows money under a loan contract, the General Manager must notify the Director – General of the borrowing
2. This clause extends to further advances made to a Council under an existing loan contract, but does not apply to a borrowing by a Council by way of overdraft.

8.3 Ministers Borrowing Order (as per Section 624 of the Local Government Act 1993)

Council may borrow at any time for any purpose allowed under the *Local Government Act 1993*. Prior to 2007/2008, Ministerial approval was required for any proposed borrowings. This is no longer necessary if borrowings are part of the Management Plan; however the Minister may impose limitations or restrictions on borrowings.

Council is required to complete the Department of Local Government's "requested borrowing" return detailing the projects to be funded by any borrowings. If borrowings are not in the Management Plan, Council must resolve to borrow funds and submit "requested borrowing" to the Department of Local Government.

A council shall not:

- (a) Borrow at an interest rate in excess of the indicative interest rate as calculated by the New South Wales Treasury Corporation.
- (b) Borrow for a period of less than thirty (30) days nor for a period in excess of the estimated life of the asset for which the borrowing is made.
- (c) Borrow from any source outside the Commonwealth of Australia nor in any currency other than Australian currency.
- (d) Pay a placement fee exceeding 0.25% of the total amount being borrowed, or
- (e) Pay a documentation fee, or any other fee associated with a borrowing, exceeding 0.1% of the total amount being borrowed.

9. ATTACHMENTS

9.1 nil

10. RESOURCES

10.1 The following resources were used in the development of this policy:

- Local Government Act 1993 (NSW)
- Local Government (General) Regulation 2005 (NSW)
- Ministers Borrowing Order (per Section 624 Local Government Act 1993)

Policy History:

Date of Adoption/Amendment	Resolution Number
23 February 2011	11/54
26 June 2013	13/136
22 February 2017	17/018