

# Loan Borrowings Policy



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{Main Category} Wingecarribee Community Strategic Plan 2031 -  
{Subcategory -Link to CSP Goal}

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## 1 Objectives

The objectives of the Policy are:

- Complies with the Ministerial Revised Borrowing Order
- Is undertaken with due regard for Council's role as custodian of public funds.
- Is undertaken with 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.

## 2 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 Chief Financial 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.

## Considerations for Borrowings

The following decision-making principles should be considered in determining if borrowings should be considered:

- 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 alternatives 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. Appropriate authorisations from the OLG (where required) will need to be considered when borrowing internally.
- The proposed structure of the borrowings and the proposed way in which the Council will procure the borrowings to achieve competitive and favourable terms.

## 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.

## **Restrictions**

Council is restricted, by the Ministerial Revised Borrowing Order, 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 TCorp.

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.

## **3 Scope**

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

## **4 Responsibilities**

Responsibilities for the implementation of this Policy are shared as follows. [Insert the following sections as applicable. It may also be necessary to add additional headings here, depending upon the nature of the policy]

### **4.1 Councillors**

Councillors shall:

- To ensure all loan borrowings are resolved by Council in accordance with the *Local Government Act 1993*.

### **4.2 General Manager**

The General Manager shall:

- Ensure the implementation of this Policy as delegated by Council in accordance with the *Local Government Act 1993*.
- To delegate the management of Council's borrowings portfolio to the Chief Financial Officer or other staff through the delegated approval process.

### **4.3 Chief Financial Officer**

The Chief Financial Officer shall:

- provide guidance to Councillors, Executive and other Council staff as to the content and implementation of this Policy.
- ensure the timely review of this Policy; and
- 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.

#### **4.4 Managers**

Managers shall:

- provide guidance to Council staff within their respective branches as to the content and implementation of this Policy, seeking guidance from the policy owner as required.

#### **4.5 Council staff**

Council staff shall:

- Borrow money in accordance with legislation and this Policy.

## 5 Performance Measures

The success of this Policy will be measured by ensuring Council is compliant with relevant legislation in borrowing funds.

Council's debt service coverage ratio should remain above 2% for the General Fund. The Water and Sewer fund will be treated on a case by case as these funds are not capped by rate pegging.

## 6 Definitions

Define any specific terms relating to the policy that may not be obvious to a member of the public or other external stakeholder. Include any acronyms and their meanings. The following table should be used:

<b>Capital expenditure</b>	Capital expenditure relates to the acquisition, upgrade, or renewal of an asset. This type of expenditure is typically one-off in nature and is for assets such as buildings, major transport projects, land acquisitions or significant community facilities.
<b>Operating expenditure</b>	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.
<b>Debt service coverage ratio</b>	The Debt Service Coverage Ratio is calculated to determine Council's operating performance before capital of Council (excluding depreciation and interest) as a ratio to Principal and interest repayments made during that year.
<b>Variable rate loan</b>	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.
<b>Fixed rate loan</b>	A loan that attracts a fixed pre-determined interest rate throughout the term of the loan.
<b>Amortising Loan</b>	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.
<b>Interest Only Loan</b>	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.



**Local Government Act 1993 – Borrowing Order**  
(Related to borrowings by Council)

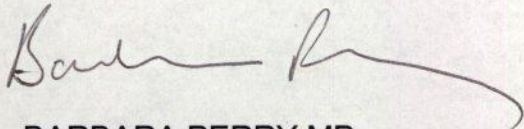
I, BARBARA PERRY MP, Minister for Local Government, in pursuance of section 624 of the Local Government Act 1993, hereby impose restrictions on borrowings by a council as follows:

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

Transitional Arrangements

Nothing in this Order affects any borrowings made before the date of this Order, which was made in compliance with the previous Ministerial Order dated 27 September 1993, and such borrowings are taken to be in compliance with this Order.

Dated this 13<sup>th</sup> day of May 2009



BARBARA PERRY MP  
Minister for Local Government

## 7 Related Material

### 7.1 Related Legislation

The following legislative materials are related to this Policy:

- Australian Accounting Standards
- *Local Government Act 1993*
- *Local Government (General) Regulation 2021*
- Local Government Code of Accounting Practice and Financial Reporting
- Ministerial Revised Borrowing Order; and
- Office of Local Government Circulars

### 7.2 Related Policies, Procedures

The following policies are related to this Policy:

- Cash Investment Policy
- Financial Reserves Policy
- Long Term Financial Plan

## 8 Non-compliance with this Policy

Non-compliance with this Policy should be reported to the General Manager who will investigate and determine the appropriate course of action.

## 9 Document Control [Governance]

### 9.1 Version Control

Version	Adoption Date	Notes
[insert version no.]	[insert date on which version was adopted]	[describe amendments/changes from previous version]
[insert version no.]	[insert date on which version was adopted]	[describe amendments/changes from previous version]

### 9.2 Superseded Documents

Document Title	Adoption Date	Notes
Loan Borrowings Policy	23 May 2018	Policy review and update.

## 10 Attachments

1. Local Government Act 1993 – Borrowing Order

**Approved by:**

**WINGECARRIBEE SHIRE COUNCIL**

[Governance to insert adoption date]