

Policy No. PP014

Loans Borrowing Policy

1 INFORMATION ABOUT THIS POLICY

POLICY INFORMATION

Date Adopted by Board 23/02/2017, 22/04/2021	Resolution No. 17/006, 21/028
Policy Responsibility Corporate Services Manager	
Review Timeframe 4 yearly	
Last Review 22/04/2021	Next Scheduled Review 22/04/2025

DOCUMENT HISTORY

DOCUMENT NO.	DATE AMENDED	SUMMARY OF CHANGES
	22/04/2021	Change review period to 4 yearly. Clarify borrowings should meet long term and operational plans. Include reporting and approval requirements.
	DD/MM/YYYY	
	DD/MM/YYYY	
	DD/MM/YYYY	

FURTHER DOCUMENT INFORMATION AND RELATIONSHIPS

Related Legislation	Local Government Act 1993 (as amended) Local Government (General) Regulation 2005
Related Policies	
Related Procedures, Protocols, Statements and Documents	Local Government Code of Accounting Practice and Financial Reporting Minister's Borrowing Order Local Government Circular 09-21 Goldenfields Water County Council's Long Term Financial Plan Goldenfields Water County Council's Operational Plan

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3 PURPOSE

The purpose of Council's Loan Borrowing Policy is to ensure:

- that all borrowings are in accordance with legislative requirements
- that reasonable care and diligence is exercised when borrowing funds
- that borrowing is in accordance with Council's operational and long term plans
- that Council can meet borrowing commitments

4 SCOPE

This policy applies to all loan borrowings undertaken by Council from external sources, excluding overdraft facilities.

5 PRINCIPLES

External loan borrowings are potentially an important source of funding for Council's capital works. The following principles have been set to ensure Council has a structured approach to borrowing funds:

- Council will **not** borrow to fund operating or recurrent expenditure.
- The fixed term of any loan will not exceed a period of ten (10) years, unless significant capital investment is required at a time where interest rates can be fixed at a rate of 5% or less.
- If the period of borrowing exceeds ten (10) years, then the borrowing term will not exceed the expected economic life of the asset being funded.
- All borrowings will be considered in line with Council's Long Term Financial Plan, exercising reasonable care and diligence that a prudent person would exercise when borrowing funds.
- The intention to borrow must be outlined in Council's Operational Plan.
- Refinancing of borrowings shall be for no longer than the remainder of the notional term of the original borrowing unless resolved by Council

6 RESPONSIBILITY AND ACCOUNTABILITY

Borrowing is not a function that Council can delegate.

Council is required to report to the Office of Local Government each year proposed borrowings, as well as any proposed increase in borrowings.

A Council resolution is required prior to drawing down of funds.

7 DETERMINATION OF APPROPRIATE LENDING INSTITUTION

Once borrowing has been approved by Council, an 'Expression of Interest' (EOI) process will be conducted whereby appropriate lending institutions will be invited to submit written quotations on Council's borrowing requirements. Council may engage an external agent to undertake the EOI process on its behalf.

Written quotations must include the:

- a. Interest rate
- b. Term of the loan
- c. Repayment intervals
- d. Repayment instalment amount
- e. Any applicable fees (including loan break costs)

Council will seek a minimum of three quotations.

The General Manager has authority to accept loan offers, subject to the borrowing amount being previously approved by Council and the requirements of the 'Loan Borrowing Policy' being adhered to.

8 RESTRICTIONS

Current borrowing restrictions are prescribed in the Local Government Borrowing Order which states:

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

9 DEBT SERVICE RATIO (DSR)

The Debt Service Ratio (DSR) measures how much Council is spending, on servicing debt as a percentage of operating revenue and is the primary indicator in relation to determining appropriate levels of debt. The NSW Office of Local Government accepted benchmark for the DSR as follows:

- Less than 10% - satisfactory
- Between 10% and 20% - fair
- Over 20% - could be of concern

Council's target in relation to its Debt Service Ratio is to achieve a financial indicator of less than 10% and not in excess of 20%.