



## BORROWING POLICY

### Summary:

The purpose of this policy is to ensure that the use and management of Council borrowings (including overdraft facilities):

- complies with the Ministerial Revised Borrowing Order dated 13 May 2009;
- is undertaken with due regard for Council's role as a custodian of public funds;
- is undertaken with the 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.

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<b>Department</b>	Office of Chief Corporate
<b>Policy Custodian</b>	Manager Finance & Technology
<b>Superseded Documents</b>	N/A
<b>Related Legislation</b>	<ol style="list-style-type: none"><li>1. Local Government Act 1993;</li><li>2. Local Government (General) Regulation 2005;</li><li>3. Ministerial Revised Borrowing Order;</li><li>4. Local Government Code of Accounting Practice and Financial Reporting;</li><li>5. Australian Accounting Standards; and</li><li>6. Office of Local Government Circulars.</li></ol>
<b>Delegations of Authority</b>	Manager Finance & Technology

## **1. Overview**

The Council's power to borrow funds arises from Section 621 of the Local Government Act 1993. As a custodian of public funds, Council must exercise the reasonable care and diligence that a prudent person would exercise when borrowing funds.

This policy provides a framework for Council to borrow funds while ensuring the ongoing viability of the Council by not permitting overall borrowings to extend Council beyond its ability to meet future repayments and budgetary obligations.

Section 377(1) (f) of the Local Government Act 1993 stipulates that Council cannot delegate the borrowing of money. It is expected that Councillors will have a full understanding of the terms and conditions of borrowing arrangements before entering into any contract.

## **2. Policy Principles**

### **Delegation of Authority**

Authority for the implementation of this policy is delegated by Council to the Chief Executive Officer in accordance with the Local Government Act 1993. The Chief Executive Officer may, in turn, delegate the day-to-day management of Council's borrowings to the Responsible Accounting Officer or other appropriately qualified senior staff (subject to regular reviews).

A record of the delegated authority is to be maintained and delegates are required to acknowledge that they have received a copy of this policy and understand the obligations of their delegated role.

It is the responsibility of the Chief Executive Officer to ensure that delegates have the necessary expertise and skill to carry out their delegated roles.

### **Guiding Principles**

Guiding principles for Council borrowings.

1. Borrowings may only be used to fund capital expenditure and not operating expenditure (which should be funded from revenue).
2. Minimum working capital requirements are to be identified and maintained in a readily available form such that there is no need to call on borrowings to fund any shortfall in reasonably anticipated operating requirements.
3. It is appropriate to fund significant capital works via borrowings such that the full cost of infrastructure is not only borne by present day ratepayers, but also by future ratepayers who will benefit from 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.

### **3. Policy Objectives**

The objectives of this policy are to ensure that the use and management of Council borrowings (including overdraft facilities):

- complies with the Ministerial Revised Borrowing Order dated 13 May 2009;
- is undertaken with due regard for Council's role as a custodian of public funds;
- is undertaken with the 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.

### **4. Policy Statement**

#### **Structure of Borrowings**

##### **Overdraft**

Council may maintain a modest overdraft facility for unexpected changes to operating cash flow requirements. As there are costs involved in accessing the facility, it is not to be used for expected operating cash flow and it is not to be used for long-term financing.

##### **Bridging Finance**

Council may obtain short-term bridging finance in order to ensure compliance with legislative requirements to fund external restrictions, and to meet grant deed conditions. This may at times be necessary to provide sufficient cash to cover a period of time while Council is waiting to receive a significant amount of funds, such as for grant-funded works or disaster recovery activities which are paid in arrears.

##### **Credit Cards**

It should be noted that the use of Council Credit cards (which is a form of borrowing) is subject to its own Policy. Council should set the overall credit facility limit within that Policy.

#### **Long-Term Borrowings**

##### **Considerations**

To assist with making the decision on whether to undertake long-term borrowings, Council should consider:

1. the financial impact of the proposed borrowing on Council's Long Term Financial Plan, Delivery Programme and Operational Plan including:

- a. scenario analysis in the case of changes to market interest rates; and
- b. any positive impact of the capital works funded by the proposed borrowing;

2. the Debt Service Ratio, which is an indicator of Council's ability to service its borrowings (should be shown to remain below 10%);

3. the cost-benefit analysis of the capital works to be funded and the works alignment with Council's strategic planning and capital programme; and
4. 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 draft Operational Plan.

Council should advise the Office of Local Government (OLG), 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 (this information is normally collected by NSW Treasury Corporation on behalf of OLG).

### **Process**

To minimise the cost of borrowing, the policy will require Council to seek competitive borrowing terms by way of obtaining a minimum of three (3) quotes. Once Council is permitted to borrow from the NSW Treasury Corporation, one of these quotes should be sourced from there.

The borrowing maturity profile should reflect the 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.

During the life of long-term borrowings, Council must regularly update its financials to ensure no breach of covenants or to take advantage of flexibility in the repayment profile should Council's financial situation change over time.

### **Restrictions**

Council is restricted, by the Ministerial Revised Borrowing Order dated 13 May 2009, to source the borrowings from Australia and in Australian currency.

### **Borrowing Parameters**

The maximum term of borrowings is the shorter of 20 years or the expected economic life of the capital works funded.

### **Monitoring and Reporting**

Any breach of this policy is to be reported to the Chief Executive Officer and Responsible Accounting Officer immediately upon becoming aware of such breach. A written statement of the facts relating to the breach is to be prepared within two business days, including the remedial action taken or proposed to be taken. The breach should be reported to Council at the next meeting.

### **Review**

This policy will be reviewed at least once every two years and, in addition, as and when required in the event of legislative or other regulatory changes. Any amendment to this policy must be authorised by Council resolution.

## 5. Scope

This Policy applies to all of Council's borrowings.

## 6. Accountability, Roles & Responsibility

### Elected Council

It is the Elected Council's responsibility to approve borrowings. There must be a Council resolution for each borrowing.

### Staff

Any member of staff involved in organising Council borrowings must do so in accordance with the adopted Borrowing Policy.

## 7. Definitions

**Variable Rate Loan.** 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

**Fixed Rate Loan.** A loan that attracts a fixed pre-determined interest rate throughout the term of the loan.

**Amortising/Credit Foncier Loan.** 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.

**Interest Only Loan.** 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.

**Floating Interest Rate Loan.** A loan where the interest rate can fluctuate for the term of the loan whenever pricing is reset. The floating rate is priced off the market Bank Bill Swap Bid rate (BBSY) rate, plus margins and fees.

## 8. Related Documents, Standards & Guidelines

Investment Policy.

Credit Card Policy.

## 9. Version Control & Change History

Version	Date	Modified by	Details
V1.0	23/05/18	Council	Adoption of Original Policy (Res No. 95/18)
V2.0	28/10/20	Council	Review/Amended Policy (Res No. 231/20)
V3.0	12/01/22	Council	Review/Amended Policy (Res No. 11/22)
V4.0	21/12/22	Council	Re adoption of Policy (Res No. 248/22)