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**Policy:**

**Loan Borrowing**

**2021**

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## INFORMATION ABOUT THIS DOCUMENT

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### ***Document History***

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<b>0.1</b>	18 June 2021	New document UINT/21/7406 – draft to ARIC 12 August 2021
<b>0.2</b>	11 November 2021	UINT/21/7406 – incorporate amendments recommended by ARIC

### ***Further Document Information and Relationships***

*List here the related strategies, procedures, references, policy or other documents that have a bearing on this Policy and that may be useful reference material for users of this Policy.*

<b>Related Legislation*</b>	<i>Local Government Act 1993 Local Government (General) Regulation 2021</i>
<b>Related Policies</b>	
<b>Related Procedures/ Protocols, Statements, documents</b>	<i>Minister’s Borrowing Order Local Government Circular 09-21 Australian Accounting Standards.</i>

*Note: Any reference to Legislation will be updated in the Policy as required. See website <http://www.legislation.nsw.gov.au/> for current Acts, Regulations and Environmental Planning Instruments.*

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## 1. OBJECTIVES

- 1.1. The objectives of Council's Loan Borrowing Policy are to:
- 1.1.1. detail Council's planned financial management strategy for existing and future debt;
  - 1.1.2. provide guidance for the prudent borrowing of funds.

## 2. POLICY

- 2.1. It is Council's policy that in relation to loan borrowing Council will:
- 2.1.1. Minimise the cost of borrowing;
  - 2.1.2. Have regard to the long term and cumulative effects of Council's borrowing decisions;
  - 2.1.3. Exercise reasonable care and diligence when borrowing funds.
  - 2.1.4. Not borrow for operating costs.
  - 2.1.5. Borrow for new/upgrade capital projects to spread the cost of the new asset over future users where deemed appropriate to do so.
  - 2.1.6. Borrow for community groups where they can demonstrate the capacity to repay the loan.

## 3. DEFINITIONS

<b>Borrowing:</b>	Cash received from another party in exchange for future payment of the principal, interest and other finance charges.
<b>Borrowing Costs:</b>	Interest and other costs that an entity incurs in connection with the borrowing of funds.
<b>Borrowing Facility:</b>	Is a loan that is not drawn down (borrowed against) completely when approved, but allows for a series of timed borrowings over a period of time, up to the maximum of the facility. These are generally used for property development.
<b>Council:</b>	Means the Uralla Shire Council.
<b>External Borrowings:</b>	Includes raising and obtaining, in any way, money, credit and other financial accommodations from sources external to Council.
<b>Loan Break Costs:</b>	Costs associated with paying out a loan prior to the loan expiry date
<b>Long Term Credit Rating:</b>	Is a forward looking opinion about credit risk, by a recognised and reputable rating agency, as allowed under the Ministerial Investment Order.
<b>Substantial Assets:</b>	These are assets that when due for renewal represent the entirety of an asset, not just a component thereof, and are of a high value, normally in excess of \$500,000. An example would be replacing a major bridge.
<b>Ordinary Rates:</b>	Has the same meaning as determined by the <i>Local Government Act 1993</i> .
<b>Debt Service Ratio:</b>	Operating result before capital excluding interest and depreciation/impairment/amortisation, divided by principal repayments plus borrowing costs

**Security:** In accordance with the *Local Government Act 1993*, security for any loan will only be given over the future Ordinary Rates of Council.

**Variable Interest:** Interest that fluctuates over the life of the loan and is usually pegged to a benchmark rate, such as the bond rate.

#### **4. LIMITATIONS**

4.1 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 other than Australian currency.*

4.2 Council has also determined that in addition to this the following limitations will apply:

4.2.1 That the total amount of borrowings outstanding is not to exceed 2.5 times the total amount of Ordinary Rates, including Special Rates, in one year; and

4.2.2 That the total amount of borrowings is not to exceed a Debt Service Ratio of two times (as disclosed in the Fit for the Future documentation).

#### **5. AUTHORISATION**

5.1 Council must have resolved to borrow funds with an express resolution for each loan as part of its Delivery Program and annual budget, before funds are borrowed; and

5.2 The General Manager has the authority to accept loan offers, subject to the borrowing amount being previously approved by Council and the requirements of this policy being adhered to.

#### **6. INTERNAL BORROWING**

6.1 Funds can be borrowed internally, within the Sections 7.11 and 7.12 Reserves, only for the purpose of other Sections 7.11 and/or 7.12 works. These funds cannot be used to fund works that are not part of the Section 7.11 and/or 7.12 works schedule; and

6.2 Funds can be used from Externally Restricted Cash, as an Internal Loan, as a replacement for an external loan borrowing, on the basis that the interest rate to be charged is pegged at 0.25% below the external rate. All of these borrowings must be approved by Council resolution, and cannot be delegated, and also be in accordance with this policy, as if it was an external loan. Approval must be sought by the Minister in accordance with Section 410(3) of the *Local Government Act 1993*.

#### **7. PRINCIPLES**

7.1 In determining the need for any new borrowings, the following criteria will be considered:

- a. Borrowings are not a form of revenue and do not replace the need for Council to generate sufficient operating revenue to service its operating requirements;

- b. Council aims to finance capital works and new assets to the greatest extent possible from revenue, grants, subsidies or any specific reserves primarily established to fund capital works;
- c. New assets, that are income producing, may be funded from debt;
- d. Loan Borrowings should be limited to renewal of substantial assets or new income producing assets;
- e. Financing of major infrastructure assets requires a strategic approach to evaluate the risk exposure to Council;
- f. There will be no long term debt to finance operating activities, non-capital projects or recurring expenditure of Council;
- g. The term of the loan should not exceed the expected economic life of the asset being funded subject to the maximum periods below:

<b>Term</b>	<b>Borrowing Amount</b>
Max 10 Years	\$500,000 to \$1,000,000
10-15 Years	\$1,000,000 to \$2,000,000
15-20 Years	Greater than \$2,000,000

Variations to the above maximums will require a resolution of Council;

- h. Any proposed borrowing amounts must be contained in Council’s Long Term Financial Plan, Delivery Program and Operational Plan;
- i. All Council decisions to borrow money will consider Council’s capacity to pay and the effect on its debt service ratio;
- j. Current and estimated future revenues. Where possible loans should only be raised for income producing products, however this will not apply to non-income generating assets such as roads and stormwater drainage. These works will only be considered if the project can demonstrate long term savings by bringing works forward;
- k. Strategic planning for the future of Council covering short, medium and long term;
- l. Inter-generational equity considerations in terms of ratepayers who benefit from the expenditure and therefore on a user pays basis, who should pay for the costs associated with such expenditure;
- m. Current and future funding needs for capital expenditure;
- n. Potential movements in interest rates and associated debt servicing costs;
- o. That the structure of the borrowing is appropriate for the nature of the asset being funded; and
- p. Any other strategic imperative that is linked to revenue and expenditure capacities.

**8. DETERMINATION OF THE APPROPRIATE LENDING INSTITUTION**

- 8.1 Once borrowing has been approved by Council, within its Delivery Program and annual budget, a quotation process will be conducted whereby appropriate lending institutions will be invited to submit written quotations on Council's borrowing requirements:
- a. Loans of up to \$2,000,000 will require three quotations from Institutions in accordance with the restrictions within this policy; and
  - b. Loans greater than \$2,000,000 will require Council to tender for the loan, which may include a borrowing facility.
- 8.2 Quotations/Tenders will only be sought from institutions with a long term credit rating of A- or above.
- 8.3 Written quotations/tenders must include:
- a. Interest rate
  - b. Term of the loan;
  - c. Repayment intervals;
  - d. Repayment instalment amount; and
  - e. Any applicable fees.
- 8.4 Interest rates may be fixed or variable for the term of the loan, such as a percentage above the current bill rate;
- 8.5 Tenders for loans over \$2,000,000 will rely on the number of tender responses received;
- 8.6 Appropriate and acceptable documentation must be provided to Council by any prospective lender during the quotation /tender process; and
- 8.7 The calculation of any loan break costs must be clearly set out in the loan documentation.

**9. COMPLIANCE AND MONITORING**

- 9.1 A monthly reconciliation of all borrowings, including accrual of interest, will be completed by the Responsible Accounting Officer and included in the Council's monthly report on Investments; and
- 9.2 Borrowing costs and borrowings will be treated in Financial Statements and all Financial Reporting in accordance with the Australian Accounting Standards.