

Policy PP014 - Loans Borrowing Policy



Policy - Loans Borrowing Policy

Policy No. PP014

INFORMATION ABOUT THIS POLICY

Date Adopted By Board	23 February 2017	Resolution No.	17/006
Policy Responsibility	Corporate Services Manager		
Review Timeframe	Every four years or within 12 months of the new term of Council, whichever occurs first.		
Last Review Date	n/a	Next Scheduled Review Date	2021

Document History

Doc No.	Date Amended	Summary of Changes

Further Document Information and Relationships

Related Legislation	Local Government Act 1993 (as amended); Local Government (General) Regulation;
Related Policies	
Related Procedures / Protocols, Statements, Documents	Local Government Code of Accounting Practice and Financial Reporting Ministers 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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PURPOSE

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

- Ensure that all borrowings are in accordance with legislative requirements
- Ensure the borrowings are sustainable in terms of ability to meet future repayments and budgetary obligations
- Maximise the organisations capital delivery program whilst minimising financial liabilities that may impede future investment

SCOPE

This policy applies to all borrowings undertaken by council from external resources.

DEFINITIONS

Nil.

POLICY

1. PRINCIPLES

External loan borrowings are an important source of funding for Council's capital works. The following principles have been set to ensure Council has a structured and disciplined approach to borrowing of funds that fit within a long term financial framework.

- 1.1 Council will **not** borrow money to fund operating expenditure. This type of expenditure will be funded through operating revenue streams.
- 1.2 Council will **not** borrow funds for recurrent expenditure
- 1.3 The 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.
- 1.4 All borrowings will be considered in line with Council's Long Term Financial Plan
- 1.5 The intention to borrow must be outlined in Council's Operational Plan.
- 1.6 Council will maintain a minimum of 2% of its asset base in cash investments
- 1.7 Refinancing of borrowings shall be for no longer than the remainder of the notional term of the original borrowing unless resolved by council

2. RESPONSIVENESS AND ACCOUNTABILITY

- 2.1 All borrowings are subject to council approval through the adoption of the Long Term Financial Plan (LTFP)

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3. DETERMINATION OF APPROPRIATE LENDING INSTITUTION

3.1 Once a 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.

3.2 Written quotations must include the:

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

3.3 Council will seek a minimum of three quotations

3.4 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.

4. 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

5. 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

Councils target on relation to its Debt Service Ratio is to achieve a financial indicator of less than 10% and to not exceed 20%.