

# Loan Borrowing Policy

## POLICY ADMINISTRATION

<b>Dates</b>	Policy approved 18/12/2023 This policy is effective upon its approval. Policy is due for review 18/12/2026
<b>Approved by</b>	Council Meeting on 18/12/2023 Council Resolution FIN046-23
<b>Policy Type</b>	<input type="checkbox"/> Executive Policy <input checked="" type="checkbox"/> Council Policy
<b>Exhibition Period</b>	01/08/2023 – 29/08/2023
<b>Policy Owner</b>	Chief Financial Officer, Business and Corporate Services
<b>Related Documents</b>	<ul style="list-style-type: none"> <li>• Georges River Council's Operational Plan (relevant year)</li> <li>• Georges River Council's Delivery Program (relevant year)</li> <li>• Georges River Council's Resourcing Strategy (relevant year)</li> <li>• Georges River Council's Long Term Financial Plan</li> </ul>
<b>References &amp; Legislation</b>	<ul style="list-style-type: none"> <li>• Local Government Act 1993</li> <li>• Local Government (General) Regulation 2021</li> <li>• DLG Circular 09/21 - Revised Borrowing Order – NSW Minister for Local Government.</li> <li>• Division of Local Government Capital Expenditure Guidelines</li> </ul>
<b>Document Identifier</b>	Policy #: Pol-057.02 Doc #: D23/324589
<b>Breaches of Policy</b>	Breaches of any policy will be dealt with and responded to in accordance with adopted codes and/or relevant legislation.
<b>Record Keeping</b>	All documents and information obtained in relation to the implementation of this policy will be kept in accordance with the NSW State Records Act 1998, Georges River Council's Corporate Records Policy and adopted internal procedures.

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## Purpose

The objective of this policy is to make provision for Council borrowings and ensure that all such borrowings are strictly in accordance with the relevant legislative provisions, asset management plans, adopted strategies and long term financial plans.

## Scope

This policy applies to all Council officials who are involved, directly or indirectly, in decision-making (including preparatory and recommendatory decision-making) with respect to the subject-matter of this policy. Specifically, this Policy applies to borrowing of funds for infrastructure and other capital projects.

## Definition of Terms

Term	Meaning
Council	Georges River Council
Asset renewal	The replacement or refurbishment of an existing asset with a new asset capable of delivering the same level of service as the existing asset.
Asset upgrade	Capital expenditure on an existing asset that increases the capacity or functionality of the asset.
Borrowing	Funds that Council may obtain from external and internal sources, either by overdraft or loan or by any other means approved by the Minister.
Debt Service Cover Ratio	This is an indicator of the extent to which council's operating revenue is committed to servicing both interest and the repayment of principal on existing loans. (The OLG consolidated key performance indicator is greater than 2). A high ratio indicates the council has significant capacity to repay debt.
Debt Service Ratio	Measures the proportion of general income that is used to repay debt and interest charges. Prudent and active debt management is a key part of council's approach to both funding and managing infrastructure and services over the long term. The benchmark for this ratio is greater than 0% and less than 20%.
Long Term Financial Plan (LTFP)	Presents a financial projection of the longer term outlook of its operations, considering known and projected events over the next 10 years and represents the best estimates of its operating results and financial position. These projections form a roadmap of the operations and give Council an opportunity to: <ul style="list-style-type: none"><li>Assess different courses of corrective action and quantify the potential outcomes</li><li>Ensure sustainability through positive net operating results (without Capital Grants)</li><li>Structure the operations, based on affordability and financial sustainability.</li></ul>

Net Present Value	Net Present Value is the difference between the present value of cash inflows and the present value of cash outflows over a period of time, based on an appropriate rate of return.
Operating Performance Ratio	Measures a council's achievement in containing operating expenditure within operating income. The benchmark for this ratio is 0% or greater. An operating deficit occurs when total operating expenses, including depreciation, amortisation and impairment costs, exceed total operating income (excluding all capital amounts).
Repairs and Maintenance	Any activity performed on an asset with a view to ensuring that it can deliver an expected level of service until it is scheduled to be renewed, replaced, or disposed of.
Unrestricted Current Ratio	Measures the adequacy of working capital and the ability of a council to satisfy its obligations in the short term. It does not include externally restricted funds such as water, sewer or specific grants and contributions.

## Policy Statement

### 1. Guiding Principles

- 1.1. Council recognises that loan borrowings are an important funding source for capital works. Whilst the preferred policy position is to remain debt free, Council recognises that in order to ensure intergenerational equity in funding the acquisition, renewal or construction of assets, it may need the prudent use of loan borrowings, debt instruments or other finance or capital raising methodologies.
- 1.2. Ensure the total amount of loan borrowings and repayment schedule is sustainable in terms of Council's ability to meet future repayments and budgetary obligations and ensuring the community is not burdened with unnecessary financial sustainability risk.
- 1.3. Refrain from borrowing, if the cost of interest repayments is likely to jeopardise a positive operating result (without Capital Grants and Contributions).
- 1.4. Prioritise the usage of unrestricted funds prior to borrowing though only in the event it does not compromise delivery of asset management obligations and other strategic priorities.
- 1.5. The Council will not borrow money to fund operating expenditure (i.e. employee costs, contractors, maintenance, general operations).
- 1.6. Every Request for Approval to borrow funds must be supported by a Business case, justifying the need to borrow funds.
- 1.7. Ensure any proposed loan borrowings comply with Council's overall risk management strategy.

- 1.8. Provide a prudential framework and documented policies for guidance of Council, when considering funding options.
- 1.9. Ensure all borrowings are in accordance with legislative requirements and ministerial directions.
- 1.10. Meet industry best practice with regard to the organisation's Debt Service Ratio.
- 1.11. Ensure Council's debt policy is easily and transparently communicated to all Council stakeholders.
- 1.12. Link each borrowing to a specific project and make sure that borrowed funds are not used to finance any operating expenditure.
- 1.13. Borrowing is permissible for suitable items such as:
  - a) Strategic and commercial property acquisitions (including land acquisitions)
  - b) Construction of new assets (e.g. roads, sports/aquatic centres, sporting fields and arts centres)
  - c) Critical asset replacement
  - d) Asset upgrade/renewals
  - e) Co-funding the acceleration of a project due to limitations on the timing of available funding, such as developer contributions, grants and/or special rates.
  - f) For any expenditures that would be deemed urgent and significant based on public health and safety interest.
  - g) Bridging finance, to enable capital projects to proceed with repayment from committed asset sales or other identified funding sources.

## 2. Ministerial Borrowing Order

- 2.1. The Minister for Local Government issued a revised Borrowing Order dated 13 May 2009 pursuant to section 624 of the Local Government Act 1993, replacing the Order dated 27 September 1993. The revised Order retains the limitation on councils to borrow only in Australia and in Australian currency. All other limitations or restrictions have been removed.

## 3. Term of the Loan

- 3.1. The term of the loan must not exceed the expected economic life of the asset being funded, subject to the maximum periods below.

Loan Borrowing Amount (\$)	Maximum Term
500,000 – 5,000,000	5 years

5,000,000 – 10,000,000	10 years
Greater than 10,000,000	20 years

#### 4. Debt Limits

- 4.1. Council's net debt outstanding at any time, both current and forecast, is to be geared to its financial capacity to service debts as determined by the Debt Service Cover Ratio.
- 4.2. Council shall agree a maximum debt level for any financial year, after analysis of the agreed operating ratios and verification that repayments can be funded and sustained in the Long Term Financial Plan.

#### 5. Debt Management Framework

- 5.1. Council's debt must be procured and managed within the following framework.
  - 5.1.1. Comply with governing legislation and all internal Council guidelines in relation to debt procurement.
  - 5.1.2. Ensure that finance facilities are available to be drawn down when required.
  - 5.1.3. Undertake a competitive procurement process to ensure maximum price competitiveness.
  - 5.1.4. Contain the potential for financial loss from unfavourable movements in interest rates, in accordance with Council's risk management preferences.
  - 5.1.5. Evaluate the advantages/disadvantages of fixing the rate of interest for the duration of the loan, to provide certainty of liability and to mitigate the risks associated with variable interest rates.
  - 5.1.6. Engage external financial advice in relation to loan borrowings and interest risk management, when it is found to be appropriate to do so.

#### 6. Council Approval Process

- 6.1. All borrowings are subject to Council approval, in conjunction with review the Long Term Financial Plan and the proposed borrowing impact.
- 6.2. The proposed borrowing impact to Council must include:
  - 6.2.1. Adherence to the Capital Expenditure Guidelines for any proposed borrowing that would exceed 10% of Council's Rate Revenue.
  - 6.2.2. A Lifecycle Business Plan (of the associated asset).
  - 6.2.3. The impact of the proposal on the Long Term Financial Plan, including borrowing costs, capital costs, renewal replacement costs and operating impact over the period of the proposed loan limit.

6.2.4. The procurement process and relevant outcome, including:

- a) Authorised deposit taking institutions (including T-Corp) invited to participate in the proposed.
- b) Scope details that at a minimum include:
  - i. Variable Interest rate
  - ii. Fixed Interest rate
  - iii. Term of the loan
  - iv. Repayment intervals (monthly, quarterly etc.)
  - v. Repayment instalment amount
  - vi. Total principal and interest repayments over the life of the loan
  - vii. Any applicable fees.

## **7. Reporting and Monitoring**

- 7.1. Council will be advised of the current loan portfolio balance as part of the monthly Investment Report, annual report and Integrated Planning and Reporting documents.
- 7.2. As per clause 230 of the Local Government (General) Regulation 2021, within 7 days after a council borrows money under a loan contract, the General Manager must notify the Secretary of the Office of Local government (OLG) of the borrowings (noting overdrafts are excluded).
- 7.3. Finance will complete any Proposed Borrowing Returns each year and submit to the OLG.
- 7.4. The Finance team will periodically review the debt portfolio to ascertain if there is an opportunity for refinancing which will deliver positive outcomes to Council.

## **8. Overdraft**

- 8.1. The borrowing Council has an overdraft facility established with the Commonwealth Bank.
- 8.2. The overdraft facility is only to be used for short term unavoidable and essential cash flow purposes only.
- 8.3. Finance staff are expected to generally avoid the use of the overdraft facility via careful cash management practices that ensure sufficient funds are available to fund daily expenditure requirements.
- 8.4. Any use of the overdraft facility must be settled within the financial year in which it is drawn down and definitely prior to the end of the financial year.

## **Responsibilities**



Position	Responsibility
<i>Councillors</i>	<ul style="list-style-type: none"> <li>To ensure their understanding of and compliance with this policy and guidelines.</li> </ul>
<i>General Manager</i>	<ul style="list-style-type: none"> <li>To lead staff (either directly or through delegated authority) in their understanding of and compliance with this policy and guidelines.</li> <li>To approve resources to develop, implement and review this policy and guidelines.</li> <li>The General Manager has authority to accept loan offers, subject to the borrowing amount being previously approved by Council.</li> </ul>
<i>Directors</i>	<ul style="list-style-type: none"> <li>To communicate, implement and comply with this policy and guidelines.</li> </ul>
<i>Director Business and Corporate Services or Chief Financial Officer</i>	<ul style="list-style-type: none"> <li>Outline responsibilities of person(s) whose role it will be to carry out the functions under the policy.</li> <li>To ensure the distribution and communication of the policy to specified person(s).</li> <li>To ensure the approved policy is available electronically on Council's website.</li> </ul>
<i>All Council Officials (staff and contractors)</i>	<ul style="list-style-type: none"> <li>To comply with the policy and any relevant guidelines and procedures.</li> </ul>

## Version Control and Change History

Version	Amendment Details	Policy Owner	Period Active
KCC	Former Kogarah Council Policy discontinued	Kogarah Chief Financial Officer	Former Kogarah City Council
1.0	New Georges River Council Loan Borrowing Policy	Chief Financial Officer	17/12/2018 – 18/12/2023
2.0	Comprehensive review based on comparison with other council. Changes included: <ul style="list-style-type: none"> <li>simplifying language, principles</li> <li>expanded definitions</li> <li>Amending new position titles and responsibilities.</li> </ul>	Chief Financial Officer	18/12/2023 – 18/12/2026