



## **8. FINANCE**

Policy 8.xx

**BORROWING POLICY**

**Version 1**

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### 8.11 BORROWING POLICY

#### OBJECTIVE:

The core objective of the Borrowings Policy is to ensure the sound management of Council's debt within the context of Council's Long Term Financial Plan.

This core objective can be achieved with consideration to the following prudent measures:

- ensuring a structured and disciplined approach to borrowing of funds.
- providing guidance as to the information that must be taken into consideration when Council is considering the use of debt.
- ensuring the cost of any expenditure can be recovered at the time that the benefits of that expenditure accrue (intergenerational equity).
- ensuring that all borrowings are in accordance with relevant legislative provisions.
- ensuring the total of the loan borrowings is sustainable in terms of Council's ability to meet future repayments and budgetary obligations.
- minimising the risk and cost of borrowing via a structured procurement program.
- meeting industry best practice in respect to Council's Debt Service Ratio.

#### LEGISLATIVE AND REGULATORY REQUIREMENTS:

- Sections 621-624 of the NSW Local Government Act, 1993
- Clauses 229-230 of the NSW Local Government (General) Regulation, 2021
- Local Government Act, 1993 - Revised Local Government Minister's Borrowing Order dated 13 May 2009

#### SCOPE:

This Policy applies to all internal and external borrowing of funds including the use of an Overdraft facility.

#### DEFINITION:

Term	Definition
Borrowing	Cash received from another party in exchange for future payment of the principal, interest and other finance charges.
Borrowing Facility	A loan that is not drawn down (borrowed against) completely when approved but allows for a series of timed borrowings over a period, up to the maximum of the facility.
Borrowing Costs	Interest and other costs that an entity incurs in connection with the borrowing of funds.
Council	Lithgow City Council
Debt Service Ratio	$\frac{\text{Total Interest} + \text{Principal Repayments}}{\text{Operating Revenue} - \text{Restricted Grants}}$
Economic Life	The period from initial borrowing to a future point of time where the asset financed requires major refurbishment for it to continue delivering the service at its original standard.

External Borrowings	Includes raising and obtaining, in any way, money, credit and other financial accommodations from sources external to Council.
Internal Borrowings	Monies transferred within Council to cover identified projects, where the money is to be repaid to the restricted fund from a specified source.
Loan Break Costs	Costs associated with paying out a loan prior to the loan expiry date.
Operating Revenue Streams	Revenue streams such as rates, fees and charges and operating grant

**POLICY:**

**1. Principles**

- All borrowings must be considered within the context of the strategic objectives of Council and its long-term financial forecasts.
- Borrowings will only be considered after all alternative financing options have been investigated and proven less advantageous to Council. Council aims to finance capital works to the greatest extent possible from revenue, grants, subsidies or any specific reserves primarily established to fund capital works.
- All borrowings will be undertaken in accordance with legislative provisions.
- If necessary external advice may be sought in relation to borrowings and interest risk management.
- All borrowings are subject to Council approval. Any proposed borrowings must be included in Council’s Operational Plan and Revenue Policy. In the event borrowings not identified in the Revenue Policy are required during the financial year, separate Council approval is required.
- Borrowings may be used to ensure there is intergenerational equity, that is, that current and future ratepayers both contribute towards the assets they use now and in the future.
- Borrowing levels must be within the parameters of a debt service ratio of less than 20% and subject to meeting repayment obligations.
- The nature of borrowings (short vs. long term) and the interest rate (fixed or variable) will consider the purpose of the borrowings and seek to minimise interest rate exposure.
- The term of the applicable loan will not exceed the expected economic life of the asset being funded.
- Council will not borrow money to fund operating expenditure. This type of expenditure should be funded through operating revenue streams.
- Council will not borrow to fund the acquisition, replacement or renewal of assets that is expected to occur on an annual basis or similar basis at approximately the same level each year (recurrent capital works), to maintain existing service levels. This type of expenditure should be funded through operating revenue streams.
- Council may borrow funds to increase service levels, including addressing a backlog of expenditure to bring assets to the desired standard.
- Council may borrow money to fund the acquisition of a new asset or an asset that replaces an existing asset with one that is significantly upgraded and has an economic life of greater than 10 years.
- Council may borrow money to fund the acquisition of assets for strategic land or property holding.
- Council may borrow money for a specific and significant one-time asset renewal.
- The decision to repay borrowings shall be made based on the facts available at the time, giving due regard to minimising the overall cost to the organisation. Loans will only be paid out early if there is a significant financial benefit to council.

## **2. Internal Borrowings**

When borrowing funds, Council will in the first instance, where appropriate and advantageous for Council, seek to use its own surplus cash funds.

### Externally Restricted Funds

Internal Loans from Externally Restricted Reserves must have Ministerial Approval before the Internal Loan can be drawn, in accordance with Section 410(3) of the Local Government Act 1993.

Funds can be borrowed internally within the Section 7.11 Reserves only for the purpose of other Section 7.11 works. These funds cannot be used to fund works that are not part of the Section 7.11 works schedule.

A repayments schedule to repay internal borrowings will be drafted to ensure repayments to Externally Restricted Reserves can be funded.

### Internally Restricted Funds

Funds can be used from Internally Restricted Reserves, as an internal loan, as a replacement for an external loan borrowing where the cost of using external funds acquired through borrowings is greater than the foregone earnings on funds that are surplus to current requirements.

The use of Internally Restricted Reserves for a purpose that is different from its original purpose requires Council approval.

A repayments schedule to repay internal borrowings will be drafted to ensure repayments to Internally Restricted Reserves can be funded.

Under no circumstances shall funds be borrowed from Trust Accounts.

## **3. Security for Borrowings**

In accordance with Section 623 of the Local Government Act 1993, the only security that will be offered in return for borrowings shall be the general funds of Council.

## **4. Borrowing Term**

The Term of Borrowing shall be set having due regard to the economic life of the asset being acquired or constructed.

Council will NOT generally borrow funds to acquire an asset that has an economic life of less than 10 years.

The following parameters will apply regarding a Borrowing Term:

- Less than \$500,000 – Term Up to 1 to 5 years
- \$500,000 - \$1,000,000 – Term Up to 10 Years
- Greater than \$1,000,000 – Term Up to 20 Years

## **5. Interest Rate Parameters**

Council will consider the following for determining the period for which the interest rate should be fixed, including:

- The level of the interest rate when compared to the long-term average official interest rate,
- Recent movements in the official interest rate, and
- The term of the loan.

Council will not enter any standalone derivative transactions in connection with its borrowings

## **6. Borrowing Ratio**

Council will not borrow funds when such borrowing would result in the Debt Service Ratio exceeding 20%, in accordance with the industry benchmark. The Debt Service Ratio is the measure of the level of debt servicing costs as a percentage of total revenue from ordinary activities. The Debt Service Ratio indicates the ability to service debt, and the risk associated with debt and interest commitments.

At all times, however, new borrowings will not be undertaken if the projected net cash flows from Council operations is insufficient to cover current and projected debt service obligations at least 2.0 times.

## **7. Selection of Lending Institution**

Once a borrowing has been approved by Council, a quotation process will be conducted with appropriate lending institutions. Authorised Deposit Taking Institutions (including TCorp) will be invited to submit written quotations on Council's borrowing requirement.

The offer that offers the most financial benefit to Council will be selected.

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

The Director Finance & Governance will periodically review the debt portfolio to ascertain if any action is necessary to match evolving financial requirements and optimise debt cost. This may include debt consolidation, change to lower cost providers, other changes to loan terms.

## **8. Overdraft**

Council has an overdraft facility established with the Commonwealth Bank.

The overdraft facility is only used for short term unavoidable and essential cash flow purposes. The use of the overdraft facility will normally occur when the cost of surplus funds held in interest bearing deposits, for which the transfer to cash will incur, a significant penalty and is largely not cost effective.

The use of the overdraft facility will generally be avoided through careful cash management practices to ensure sufficient funds are available to fund daily expenditure requirements.

At no time is the overdraft facility to be used as an ongoing debt facility or to fund anything except short term cash flows.

## 9. Reporting

Council is required to complete the Office of Local Government Borrowing Return detailing projects to be funded for any borrowings for the financial year, on an annual basis.

Borrowings are also included as part of the annual Financial Statements, which are audited by the NSW Auditor General. Borrowing costs and borrowings will be treated in Financial Statements and all Financial Reporting in accordance with Australian Accounting Standards.

### ROLES AND RESPONSIBILITIES:

Role	Responsibilities
Council	Approve all internal and external borrowings in accordance with its strategic objectives and this Policy.
Director Finance & Governance	Ensure that the annual Proposed Borrowing Return is submitted to the Office of Local Government. Ensure that the proposed borrowings are included in the Annual Operational Plan - Revenue Policy. Periodically review Council's debt portfolio.

### REVIEW:

This Policy will be reviewed as required and in the event of legislative changes.

The Policy may also be changed because of other amendments that are to the advantage of Council and in the spirit of this Policy.

Any material amendment to the Policy must be by way of Council resolution.

<b>Maintained by Department:</b>	Finance	<b>Approved by:</b>			
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