

<b>POLICY:-</b>	
Policy Title:	Borrowings/Loans Policy
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Resolution Number:	124/22
Next Policy Review Date:	2025

<b>PROCEDURES/GUIDELINES:-</b>	
Date procedure/guideline was developed:	N/A
Procedure/guideline reference number:	N/A

<b>RESPONSIBILITY:-</b>	
Draft Policy developed by:	Director of Finance and Administration
Committee/s (if any) consulted in the development of this Policy:	N/A
Responsibility for implementation:	General Manager
Responsibility for review of Policy:	Director of Finance and Administration

## **OBJECTIVE**

To borrow funds in accordance with relevant legislative requirements and to provide a structured and disciplined approach to the supplementary financing of Upper Lachlan Shire Council's capital infrastructure improvements and asset renewals program over time through the use of loan monies.

## **POLICY FRAMEWORK**

That Council seeks to ensure that the borrowing policy and related guidelines are publicly transparent and meet good business and best practice criteria including controls over identified risks.

This policy applies to all new and old money borrowings from external sources. Upper Lachlan Shire Council borrowings are subject to statutory legal requirements including Sections 621-624, of the Local Government Act 1993 and Ministerial Borrowing Order signed by the Minister for Local Government.

The Local Government Act 1993 sets out the overarching ability to borrow but refers to the ability of the Minister of Local Government to impose restrictions and for security to be in accordance with regulations. Division 9 - Miscellaneous, Section 229-230, of Local Government (General) Regulation 2021, stipulates that the General Manager is to notify the Director-General within seven days of any borrowings. The Regulations also specify that loans will be a charge on Council's income, loans may only be in Australian Currency and excludes offshore borrowing, and sets limits for placement fees.

It is an annual requirement that the Minister determines each NSW Local Government Council's Borrowing Limit in accordance with Section 624, of the Local Government Act 1993. This requirement stipulates that all borrowings are approved by the Minister for Local Government prior to the drawdown of loan funds.

All proposed borrowings shall be included in Council's Operational Plan outlining what is the purpose of the borrowings, the amount to be borrowed and from which fund the loans will be financed.

The procedures to be implemented by Council staff will be as follows:-

1. Councils must apply to the Office of Local Government, completing a loan borrowing request each year. If, during the year, Council is required to increase its proposed borrowings or change the purpose of the initial request, a Council Resolution must be passed prior to drawing down of any funds.
2. Council's Chief Financial Officer is to call for loan interest rate written quotations from a minimum three financial institutions (Authorised Deposit Taking Institutions); including the provision of repayment schedules for interest and principal amounts, specifying the term of the loan, and any applicable fees;

3. Council Chief Financial Officer to recommend to the General Manager an approval of a loan;
4. All new borrowings are noted by a Council Resolution and where necessary affix the Seal of Council to the relevant loan documentation and be signed by the General Manager and Mayor as required; and
5. Council staff to ensure filing of all transactions, quotes and decisions for audit and review as specified in Council's Records Management Policy.

### **CIRCUMSTANCES WHERE BORROWING WILL BE CONSIDERED**

The Council will give consideration to borrowing money for the acquisition or construction of an asset where:-

- The asset to be acquired is a new addition to Council's asset base or replaces an existing asset with one that is significantly upgraded and has an Economic Life of greater than 20 years; or
- All alternative financing options for undertaking the project without borrowing have been investigated and proven less advantageous to the Council; or
- The income stream from the asset to be acquired or constructed exceeds the cost of borrowing over the life of that asset; or
- Loan repayments will be met by a third party i.e. self supporting loans; or
- The index of the cost of acquisition or construction is increasing at a rate that exceeds the cost of borrowing i.e. to "save" for the acquisition or construction will result in the actual cost being greater than the cost of borrowing the money and acquiring it today.

As a general rule the benefits received from undertaking the borrowing should be greater, over the life of the borrowing, than the costs of borrowing.

Where the cost of using external funds acquired through borrowing, is greater than the forgone investment earnings on these funds that are surplus to current requirements, such funds should be used prior to seeking external funds.

### **POLICY GUIDELINES**

1. Council under their charter are to have regard to long term and cumulative effects of their decisions. Accordingly, Council must exercise reasonable care and diligence that a prudent person would exercise when borrowing funds;
2. The Council recognises that loan borrowings play an important part in the local government financial structure for financing infrastructure projects, capital asset renewals and expansions;

3. The Council also recognises that it is equitable to the ratepayers that the liability for the capital costs of infrastructure should be distributed over the period during which the people enjoy the benefits derived thereof. The principle of intergenerational equity may be applied;
4. The Council adopts the principle of using loan moneys as a resource to fund the replacement and creation of infrastructure assets that have a long life expectancy;
5. The use of loan moneys shall be limited to the construction and alteration of buildings, the acquisition of income producing assets and new infrastructure assets which have a life expectancy greater than twenty years. In particular debt may be used to fund capital expenditure that provides future service benefits. The principle of improving the valuation and pricing of social and ecological resources applies - the users of goods and services should pay prices based on the full life cycle costs, this particularly applies to the matching of debt profiles to infrastructure asset profiles;
6. In no circumstances shall Council borrow funds for recurrent expenditure or to fund operating budget expenditure maintenance activities;
7. Loan borrowings will be limited to a level where the ratio of net debt service costs (principal and interest) to operating income does not exceed 10%;
8. Council shall ensure there is appropriate working capital available to carry out its strategic plans as outlined in Council's Delivery Program and any related borrowings program will be included within Council's identified Long Term Financial Plan and align with the Infrastructure Plan – Asset Management Plans;
9. Borrowings are to be used in a manner consistent with competitive neutrality policy requirements;
10. Procedures and controls are to address risks and meet good business and best practice requirements;
11. The Council will only raise debt, by way of borrowings, after receiving the Minister for Local Government's approval, and after having first ascertained that there are no readily available unrestricted Council cash reserves;
12. Given the Council's preference for certainty, interest rate risk / exposure shall be managed by ensuring that the term of the loan will span at least 10 financial years with a preference for longer terms and varying the maturities so that no more than 15% of debt will mature in any one financial year;

13. Liquidity risk management refers to the timely availability of funds to the Council when needed without incurring penalty costs. Liquidity risk will be minimised by:-
  - Avoiding a concentration of debt maturity dates;
  - Adherence as far as possible to the adopted Council Delivery Program and Operational Plan; and
  - Maintaining an appropriate amount of accessible cash and investments or uncommitted credit lines to cover working capital requirements as they fall due.
14. The Council will ensure that debt is maintained at prudent levels in accordance with Ministerial Approvals and the funding principle of ensuring that the costs of any expenditure can be recovered at the time that the benefits of that expenditure accrue;
15. Where appropriate the General Manager may determine internal debt arrangements. Internal loans will normally only be in relation to expenditure of a capital (or one-off) nature related to any activity that would normally be funded by external loan. Internal debt may include borrowing against future Section 7.11, Section 7.12 and / or Section 64 Development Contributions Plans;
16. In no circumstances shall Council borrow funds from the Trust Fund;
17. The accounting for borrowings must be in accordance with the Local Government Code of Accounting Practice and Financial Reporting Guidelines. Costs of borrowing will be allocated to the specific funds to which the borrowing directly relates;
18. Council is to adhere to the Local Government (General) Regulation 2021 which states that loans to Council are to be a charge on the Council's income. The repayment of money borrowed by a Council (whether by way of overdraft or otherwise), and the payment of any interest on that money, is a charge on the income of the Council.

## **RELEVANT LEGISLATION AND COUNCIL POLICIES**

The following legislation and Council policies that are relevant to this Policy include:-

- Local Government Act 1993;
- Local Government (General) Regulation 2021;
- Independent Commission against Corruption Act 1988;
- Government Information (Public Access) Act 2009;
- State Records Act 1998;
- Ombudsman Act 1974;
- Ministerial Borrowing Order;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards;

- Australian Taxation Office legislation and determinations;
- Council Code of Conduct;
- Council Code of Meeting Practice;
- Council Long Term Financial Plan;
- Council Delivery Program;
- Council Operational Plan;
- Council Investment Policy and Strategy;
- Council Internal Controls and Procedures Manual;
- Council Fraud and Corruption Prevention Policy;
- Council Delegations of Authority Policy;
- Council Records Management Policy; and
- Council Procurement Policy.

### **VARIATION**

That Council reserves the right to vary the terms and conditions of this policy.

