



# **BORROWING AND OVERDRAFT FACILITY POLICY**

**20 December 2022**

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# POLICY STATEMENT

Loan borrowings are an important source of funding for Junee Shire Council. This policy provides a structured and disciplined approach to the borrowing of funds for the purpose of funding new infrastructure and renewal of existing infrastructure. All borrowings must be approved by Council resolution.

## Related Legislation, Circulars or Guidelines (as amended)

- Local Government Act 1993
- Local Government (General) Regulation 2005 (NSW)
- Minister's Borrowing Order (13 May 2009)
- Local Government Circular 07-35 (27 July 2007)

## 1. INTRODUCTION

Council recognises that loan borrowings for capital works are an important funding source for Local Government and that the full cost of infrastructure should not be borne entirely by present-day ratepayers, but be contributed to by future ratepayers who will also benefit.

Council will restrict all borrowings to expenditure on identified capital projects that are considered by Council to be of the highest priority, and which are unable to be funded from revenue. Under no circumstances should Council borrow funds for recurrent expenditure.

Council will comply with the provisions of the Local Government Act in relation to internal loans.

## 2. OBJECTIVES

The objectives of Council's Loan Borrowing Policy are to:

- 2.1 Ensure that all borrowings (both internal and external) are in accordance with legislative requirements.
- 2.2 Minimise the cost of borrowings.
- 2.3 Ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments and budgetary obligations.

## 3. PRINCIPLES

Council's Loan Borrowing Policy is underpinned by the following principles:

- 3.1 Council will **not** borrow money to fund operating expenditure. This type of expenditure should be funded through operating revenue streams.

- 3.2 Council will **not** borrow money to fund the acquisition, replacement or renewal of assets that is expected to occur on an annual (or similar) basis at approximately the same level each year (ie. recurrent capital works such as road resurfacing, plant replacement, etc). This type of expenditure shall be funded through operating revenue streams.
- 3.3 Where a capital project for a service that is funded by user charges is determined to be funded by way of loans, the user charge should reflect the cost of providing the service (including any loan repayments).
- 3.4 Other specific capital projects, not funded by user charges, should only be considered for loan funding where the project is considered by Council to be beneficial to the majority of ratepayers.
- 3.5 The term of any loan should not exceed the expected economic life of the asset being funded.
- 3.6 Prior to undertaking any borrowing, Council shall assess its capacity to repay the loan, to ensure that the community is not burdened with unnecessary risk and rate / charge increases.
- 3.7 Funds raised for a specific purpose as the result of levying a special rate or charge, are not to be re-allocated to other areas without justification in terms of service provision and compliance with internal loan requirements, which require Council to obtain approval from the Minister of Local Government.
- 3.8 The nature of any borrowings (short or long term) and the interest rate (fixed or variable), if applicable, will take into account the purpose of the borrowings and seek to minimise interest rate exposure.
- 3.9 All borrowings will be considered in line with Council's Long Term Financial Plan.
- 3.10 All borrowings taken up in a financial year are to be as adopted in the Council's Operational Plan.
- 3.10 Council's goal is to achieve a financial indicator of less than 10% for the Consolidated Debt Service Ratio, which is a key performance indicator of the Division of Local Government. This target is calculated by including a notional adjustment for Interest Only Loans when part of the Council's loan portfolio includes Interest Only Loans.

## **4. RESPONSIVENESS AND ACCOUNTABILITY**

- 4.1 All borrowings will be subject to Council Approval.
- 4.2 Council must identify the source of funds to cover the loan before approving any loan borrowings and acknowledge the necessary adjustments to Council's budget.

## 5. DETERMINATION OF APPROPRIATE LENDING INSTITUTION – EXTERNAL LOANS

- 5.1 Once a borrowing has been approved by Council, an ‘Expression of Interest’ (EOI) process will be conducted whereby appropriate lending institutions (Authorised Deposit Taking Institutions) will be invited to submit written quotations on Council’s borrowing requirements.
- 5.2 Written quotations must include the:
- a) Interest rate
  - b) Term of the loan
  - c) Repayment intervals (monthly, quarterly etc)
  - d) Repayment instalment amount and
  - e) Any applicable fees
- 5.3 Council may also request an observable market benchmark, such as a percentage above the current bill rate, to assist in analysing the quotations provided.
- 5.4 Council will seek a minimum of three written quotations for its approved loan borrowing from Authorised Deposit Taking Institutions.
- 5.5 Appropriate and acceptable documentation must be provided to Council by any prospective lender during the EOI process.
- 5.6 The calculation process for any loan break costs must be clearly set out in the loan documentation.
- 5.7 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.

## 6. 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.”*

## 7. INTERNAL LOANS

Internal loans funded from externally restricted cash are loans that must have Ministerial approval prior to being entered into, in accordance with section 410(3) of the Local Government Act 1993.

The use of internally restricted cash for purposes other than originally intended is not considered to be an internal loan. The use of internally restricted cash for a purpose that is different from its original purpose means rescission of a previous council resolution.

## **8. OVERDRAFT FACILITIES**

Council has an overdraft facility with the Commonwealth Bank. The overdraft facility is to be utilised for short term, unavoidable and essential cash flow only. Use of the overdraft facility is to be minimised by employing careful cash management practices that ensure sufficient cash at bank to satisfy daily expenditure requirements.