

ADOPTED		VERSION NO	1.4
COUNCIL MEETING MIN NO	100/24	REVIEW DATE	APRIL 2028
DATE:	15/05/2024	FILE NUMBER	FIN300032, FIN300030

## Objective

The objective of this policy is to ensure that the use and management of Council borrowings (including overdraft facilities):

- Complies with the Ministerial Revised Borrowing Order dated 13 May 2009;
- Is undertaken with due regard for Council's role as a custodian of public funds;
- Is undertaken with the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons; and
- Complies with Council's overall risk management philosophy.

The Council's power to borrow funds arises from Section 621 of the Local Government Act 1993. As a custodian of public funds, Council must exercise the reasonable care and diligence that a prudent person would exercise when borrowing funds.

This policy provides a framework for Council to borrow funds while ensuring the ongoing viability of the Council by not permitting overall borrowings to extend Council beyond its ability to meet future repayments and budgetary obligations.

Section 377(1) (f) of the Local Government Act 1993 stipulates that Council cannot delegate the borrowing of money. It is expected that Councillors will have a full understanding of the terms and conditions of borrowing arrangements before entering into any contract.

## Legislative requirements

All borrowings must comply with the following:

- Local Government Act 1993;
- Local Government (General) Regulation 2021;
- Ministerial Revised Borrowing Order;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards; and
- Office of Local Government Circulars.

## Policy

### Delegation of Authority

Authority for the implementation of this policy is delegated by Council to the General Manager in accordance with the Local Government Act 1993. The General Manager may, in turn, delegate the day-to-day management of Council's borrowings to the Responsible Officer or other appropriately qualified senior staff (subject to regular reviews).

A record of the delegated authority is to be maintained and delegates are required to acknowledge that they have received a copy of this policy and understand the obligations of their delegated role. It is the responsibility of the General Manager to ensure that delegates have the necessary expertise and skill to carry out their delegated roles.

## Guiding Principles

Guiding principles for Council borrowings:

- Borrowings may only be used to fund capital expenditure and not operating expenditure (which should be funded from revenue).
- Minimum working capital requirements are to be identified and maintained in a readily available form such that there is no need to call on borrowings to fund any shortfall in reasonably anticipated operating requirements.
- It is appropriate to fund significant capital works via borrowings such that the full cost of infrastructure is not only borne by present day ratepayers, but also by future ratepayers who will benefit from use of the funded infrastructure.
- It may be appropriate to fund certain capital projects with user charges, in which case user charges should reflect the project's costs, including loan payments.
- The impact on Council's budget of any movement in interest rates must be actively managed.

## Structure of Borrowings

### OVERDRAFT

The Council may maintain a modest overdraft facility for unexpected changes to operating cash flow requirements. As there are costs involved in accessing the facility, it is not to be used for expected operating cash flow and it is not to be used for long-term financing.

### LONG-TERM BORROWINGS

#### Considerations

To assist with making the decision on whether to undertake long-term borrowings, Council should consider:

- The financial impact of the proposed borrowing on Council's Long Term Financial Plan, Delivery Program and Operational Plan including:
  - a) Scenario analysis in the case of changes to market interest rates; and
  - b) Any positive impact of the capital works funded by the proposed borrowing;
- The Debt Service Cover Ratio. This ratio measures the availability of operating cash to service debt including interest, principal and lease payments. At the time of borrowing financial projections for this ratio should be above 2.
- The Cash Expense Cover Ratio. This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow. At the time of borrowing financial projections for this ratio should be greater than 3 months.
- The cost-benefit analysis of the capital works to be funded and the works alignment with Council's strategic planning and capital program; and

- The proposed structure of the borrowings and the proposed way in which the Council will procure the borrowings to achieve competitive and favourable terms.

#### Requirements

Councils can borrow funds under section 621 of the Local Government Act 1993. All borrowings must be approved by Council resolution and included in Council's annual draft Operational Plan.

Councils must also apply to the Office of Local Government, completing a proposed loan borrowing return each year.

The General Manager under section 230 of the Local Government (General) Regulation 2021 must notify the Director-General within seven days after borrowing money under a loan contract.

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.

If there is an increase, Council must also notify the Office of Local Government by re-submitting the electronic loan borrowing request form including the updated amounts.

#### Process

In order to minimise the cost of borrowing, demonstrate probity and aim to support the local economy, the policy will require Council to seek competitive borrowing terms by way of releasing an expression of interest on the supplier marketplace and approaching registered banks with a branch within the Local Government Area to obtain quotes.

The borrowing maturity profile should reflect the Council's forecast repayment profile. Consideration should also be given to incorporating flexibility in borrowing covenants in case of early repayment or a need to extend the term of the loan.

During the life of long-term borrowings, Council must regularly update its financials to ensure no breach of covenants or to take advantage of flexibility in the repayment profile should Council's financial situation change over time.

#### Restrictions

Council is restricted, by the Ministerial Revised Borrowing Order dated 13 May 2009, to source the borrowings from Australia and in Australian currency.

#### Borrowing Parameters

The Council's borrowing program must remain within the following parameters:

- Maximum term of borrowings is the shorter of 20 years or the expected economic life of the capital works funded.
- A minimum of 50% of borrowings are to be fixed rate.

#### Security for borrowings

The Council acknowledges that under Reg 229 of the Local Government (General) Regulation 2021 *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.*

INTERNAL LOANS

An internal loan consists of surplus investment funds that are restricted to a particular purpose being borrowed for another purpose of Council. This process would involve a formal internal loan whereby borrowed funds would be repaid with interest to the reserve that has lent the funds.

Where the surplus funds have been derived from general revenue streams this decision can be made by resolution of Council.

Where the surplus funds have been derived from externally restricted revenue or from a special rate or charge, such loans require Ministerial approval prior to being entered into, in accordance with Section 410 of the Local Government Act 1993.

Internal loans and internally restricted funds are not required to be included in the proposed loan borrowing return submitted to the Office of Local Government.

Monitoring and Reporting

Any breach of this policy is to be reported to the General Manager and Responsible Accounting Officer immediately upon becoming aware of such breach. A written statement of the facts relating to the breach is to be prepared within two business days, including the remedial action taken or proposed to be taken. The breach should be reported to Council at the next meeting.

Policy Review

This policy will be reviewed every four years and, in addition, as and when required in the event of legislative or other regulatory changes. Any amendment to this policy must be authorised by Council resolution.

Definitions

Term	Definition
Variable Rate Loan	A loan that attracts an interest rate linked to a variable benchmark. In Australia variable rate loans are normally priced at a fixed margin over the Ausbond Bank Bill Rate which is the market benchmark three month interbank rate.
Fixed Rate Loan	A loan that attracts a fixed pre-determined interest rate throughout the term of the loan.
Amortising/Credit Foncier Loan	A loan that is repaid over the term of the loan, normally by equal instalments due quarterly or semi-annually. Interest payments and capital repayments are normally combined and paid on the instalment date.
Interest Only Loan	A loan repaid in full on the final maturity date. The loan can be either a variable rate loan or a fixed rate loan with interest payments normally payable quarterly for a variable rate loan and semi-annually for a fixed rate loan.
Cash Expense Cover Ratio	The Cash Expense Cover Ratio is calculated as:  $\frac{\text{Current year's cash and cash equivalents plus all term deposits}}{\text{Monthly payments from cash flow of operating and financing activities}}$
Debt Service Cover Ratio	The Debt Service Cover Ratio is calculated as:  $\frac{\text{Operating result before capital excluding interest and depreciation, impairment, amortisation}}{\text{Principal repayments plus borrowing costs}}$