

## Purpose

This policy outlines Council's Loan Borrowing Strategy and provides guidance for the prudent borrowing of funds, with the aim of minimising overall debt.

## Objective

- To detail Council's planned financial management strategy for existing and future debt;
- Provide guidance as to the information that must be taken into consideration when Council is considering the use of debt;
- Minimise the cost of borrowing;
- Have regard to the long term and cumulative effects of Council's decisions;
- Exercise reasonable care and diligence that a prudent person would exercise when borrowing funds; and
- To establish an ongoing loan facility to give Council the flexibility to act, when investment opportunities arise, for income producing assets.

## Background/Legislation

The following legislation, circulars or guidelines are relevant to Councils when considering loan borrowing

- Local Government Act 1993;
- Local Government (General) Regulation 2005;
- Minister's Borrowing Order;
- Local Government Circular 09-21.

## Limitations

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 current other than Australian currency.*

Council has also determined that in addition to this the following limitations will apply:

- That the total amount of borrowings outstanding is not to exceed 2.5 times the total amount of Ordinary Rates, including Special Rates, in any one year; and

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- That the total amount of borrowings is not to exceed a Debt Service Ratio of 20% (as disclosed in the Fit for the Future documentation).

## Authorisation

- Council must have resolved to borrow funds as part of its Delivery Plan and annual budget, before funds are borrowed; and
- The General Manager has the authority to accept loan offers, subject to the borrowing amount being previously approved by Council and the requirements of the this policy being adhered to.

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## Internal borrowing

- Funds can be borrowed internally, within the Section 94 Reserve, only for the purpose of other Section 94 works. These funds cannot be used to fund works that are not part of the Section 94 works schedule; and
- Funds can be used from Internally Restricted Revenues, as an Internal Loan, as a replacement for an external loan borrowing, on the basis that the interest rate to be charged is pegged at 0.25% below the external rate. All of these borrowings must be approved by Council resolution, and cannot be delegated, and also be in accordance with this policy, as if it was an external loan.

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## Principles

- Borrowings are not a form of revenue and do not replace the need for Council to generate sufficient operating revenue to service its operating requirements;
- Council aims to finance capital works and new assets to the greatest extent possible from revenue, grants, subsidies or any specific reserves primarily established to fund capital works;
- It is Council's intention to fund depreciation, and restrict those funds into an internal reserve, for the purpose of funding capital works;
- Existing assets, that are due for renewal are to be replaced from the funding of depreciation costs, with the exception of "lumpy" assets, where borrowing may be used, and the funded depreciation used to repay the loan, both principal and interest;
- New assets, that are income producing, may be funded from debt;
- Loan Borrowings should be limited to renewal of "lumpy" assets or new income producing assets;
- Council may borrow through any market mechanism under Section 134 and Section 135 of the Local Government Act, but will not directly issue its own debt;

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- Financing of major infrastructure assets requires a strategic approach to evaluate the risk exposure to Council;
- Council will not enter into any financing arrangements which involve the repayment of interest only;
- Council, where it is appropriate; may enter into a borrowing facility for a long term asset construction project, such as property development;
- There will be no long term debt to finance operating activities, non-capital projects or recurring expenditure of Council;
- The term of the loan should not exceed the expected economic life of the asset being funded, subject to the maximum periods below; and
- The maximum period for borrowing will be set, as per the table below;

Borrowing Amount	Term
\$500,000 to \$1,000,000	Max 5 years
\$1,000,000 to \$2,000,000	10 years
Greater than \$2,000,000	15 years

Variations to these periods will require a resolution of Council.

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## Determination of the Appropriate Lending Institution

- Once borrowing has been approved by Council, within its Delivery Plan and annual budget, a quotation process will be conducted whereby appropriate lending institutions (ADIs) will be invited to submit written quotations on Council's borrowing requirements;
  - For loans of up to \$5,000,000 will require three quotations from Institutions in accordance with the restrictions within this policy; and
  - Loans greater than \$5,000,000 will require Council to tender for the loan, which may include a borrowing facility.
- Quotations/Tenders will only be sought from ADIs with a long term credit rating of A- or above;
- Written quotations/tenders must include;
  - Interest rate;
  - Term of the loan;
  - Repayment intervals (Six monthly only);
  - Repayment instalment amount; and
  - Any applicable fees.
- Interest rates may be fixed or variable for the term of the loan, such as a percentage above the current bill rate;

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- A minimum of three written quotations for approved loan borrowings, under \$5,000,000 will be sought;
- Tenders for loans over \$5,000,000 will rely on the number of tender responses received;
- Appropriate and acceptable documentation must be provided to Council by any prospective lender during the quotation/tender process; and
- The calculation for any loan break costs must be clearly set out in the loan documentation

## Compliance and Monitoring

- A monthly reconciliation of all borrowings, including accrual of interest, will be completed by the Responsible Accounting Officer and included in the Council's monthly report on Investments; and
- Borrowing costs and borrowings will be treated in Financial Statements and all Financial Reporting in accordance with the Australian Accounting Standards.

## Definitions

- **Borrowing:** Cash received from another party in exchange for future payment of the principal, interest and other finance charges.
- **Borrowing Costs:** interest and other costs that an entity incurs in connection with the borrowing of funds.
- **Borrowing Facility:** is a loan that is not drawn down (borrowed against) completely when approved, but allows for a series of timed borrowings over a period of time, up to the maximum of the facility. These are generally used for property development.
- **Council:** means the Council of the City of Ryde.
- **External Borrowings:** includes raising and obtaining, in any way, money, credit and other financial accommodations from sources external to Council.
- **Loan Break Costs:** costs associated with paying out a loan prior to the loan expiry date.
- **Long Term Credit Rating:** is a forward looking opinion about credit risk, by a recognised and reputable rating agency, as allowed under the Ministerial Investment Order.
- **Lumpy assets:** these are assets that when due for renewal will require funding that is greater than two years of renewal funding for that particular assets, as defined in the Asset Management Plan (AMP) and Sub-Plans. An example would be the replacing the roof on a building.

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- **Ordinary rates:** has the same meaning as determined by the Local Government Act.
- **Security:** in accordance with the Local Government Act, security for any loan will only be given over the future Ordinary Rates of Council.
- **Renewal funding:** this is the annual amount of funding that is required to be raised and held, that is equivalent to straight line depreciation of the total value of the asset over the useful life of the asset, being the renewal intervention life. For roads it is 45 years, whilst 50 years is considered the failure point.
- **Variable Interest:** interest that fluctuates over the life of the loan and is usually pegged to a benchmark rate, such as the bond rate.

## Link to Plans

This policy links to the Community Strategic Plan in the following way:

- Outcome: A City of Progressive Leadership
- Goal: The City of Ryde will deliver value for money services for our community and our customers
- Strategy: To optimise value for money and deliver responsible spending across all of our services

It also links to the Council's Delivery Plan and Operational Plan in the following way:

- Program: Internal Corporate Services program
- SubProgram: Financial Planning and Management
- Accountability: Corporate Financial Planning

## Review Process and Endorsement

This Policy should be reviewed when the relevant legislation changes, the Ministerial Order is varied or every second year and any and all changes are to be endorsed by Council.

## Version Control – Loan Borrowing Policy

Document Name	Last Modified Date
Version 1	1/7/2015

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