

# Policy

## Loan Borrowing 2022



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Further Document Information and Relationships	
Related Legislation*	Local Government Act 1993 Local Government (General) Regulations 2021
Related Policies	Minister's Borrowing Order Local Government Circular 09-21
Related Documents	

\*Note: Any reference to Legislation will be updated in the Policy as required. See website <http://www.legislation.nsw.gov.au/> for current Acts, Regulations and Environmental Planning Instruments.

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## 1. Purpose

Provide a decision-making framework for sourcing funds by loan borrowing.

## 2. Commencement

This Policy is effective from the date of resolution by Council and shall remain in force until repealed by resolution of Council.

## 3. Scope

This Policy applies to all Council staff, elected members of Council and contracted service providers.

## 4. Definitions and Interpretation

In this Policy, the following terms shall be interpreted to have the following meanings:

Term	Definition
Act	Local Government Act 1993
Council	Liverpool Plains Shire Council
Debt Service Ratio	Ratio indicates the extent to which Council's operating revenue is committed to servicing both interest and the repayment of principal on loans

## 5. Background

Council recognises that loan borrowings for capital works are an important funding source for Local Government. It provides the opportunity to bring unfunded projects forward and ensures the full cost of infrastructure is not borne entirely by present-day ratepayers.

Borrowing can be considered as an appropriate source of funding in the context of a strategic objective of Council; the Long Term Financial Plan; as an alternative funding source for asset additions; or as a method of spreading the cost of long life (intergenerational) assets.

A Borrowings Return form must be submitted to the Office of Local Government (OLG) by July each year outlining Council approved loan borrowings for the following financial year.

## 6. Policy Statement

### 6.1 Introduction

Council will restrict all borrowings to expenditure on identified capital projects that are considered by Council to be of the highest priority, and which cannot be funded from

revenue, as identified in Council's Long-Term Financial Plan. In no circumstances should Council borrow funds for recurrent expenditure.

## 6.2 Funding utilisation

The basis for determination of the utilisation of loan funds will be as follows:

- a) Where a capital project for a service that is funded by user charges (e.g. water) is determined to be funded by way of loans, the user charge should reflect the cost of providing the service including the loan servicing; or
- b) 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; and
- c) The term of any loan should not exceed the expected life of the asset being funded.

## 6.3 Refinancing

Future movements in interest rates are uncertain in direction, timing and magnitude. Changes to interest rates can result in existing loan borrowing interest rates to be higher than current interest rates. Annual review of loan borrowing is to be presented to Council's Audit, Risk and Improvement Committee. On the Committee's request quotations for renewing the existing funding to be obtained. The report should specify all costs to terminate the existing loan and provide cost benefit analysis for refinancing.

The Committee can recommend to Council to refinance any existing loans in accord with this Policy.

## 6.4 Authority to Authorise Loans

The authority to authorise loans and/or Council funding requirements is vested with Council by virtue of the Local Government Act. No officer of Council is authorised to undertake the establishment of a new loan facility without the authorisation of Council. All borrowings must be first approved by Council resolution.

## 6.5 Principles of Loan Borrowings

The following principles are to be applied when considering undertaking loan borrowings:

- a) Operating Expenditure - Council will not borrow money to fund operating expenditure. This type of expenditure should be funded through operating revenue streams such as rates, fees and charges or operating grants.

- b) Recurrent Capital Expenditure - 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, etc. This type of expenditure shall be funded through operating revenue streams such as grants, contributions, rates and fees and charges.

## 6.6 Borrowing Limitations

Prior to undertaking any borrowing, Council shall assess its capacity to pay, to ensure that the community is not burdened with unnecessary risk. Council shall then reassess its capacity to pay on an annual basis as part of its budgeting process. As part of this assessment, the following borrowing limitations apply:

- a) Loan borrowings be limited to a level where the ratio of net debt service costs (principal and interest) to operating revenue does not exceed 10%.
- b) The use of loan funds will, in the main, be limited to the construction, alteration and/or renewal of buildings, the acquisition of income producing assets (including land) and the acquisition of new or renewal of existing infrastructure assets which have a life expectancy greater than ten years.
- c) Borrowings shall be undertaken in Australia and be in Australian dollars;
- d) Any borrowings will be conducted in accordance with relevant statutory requirements as contained in the Local Government Act 1993 and the Local Government (General) Regulations 2021.

## 6.7 Determining the appropriate Lending Institution

At least three quotations shall be sought, in order to determine the appropriate lending institution for any loan borrowings. One quotation must be sought from the NSW Treasury Corporation (T-Corp). Determination of the appropriate institution will be based on:

- a) the interest rate;
- b) loan costs;
- c) the term of the loan;
- d) any applicable fees;
- e) loan conditions including repayment schedule; and
- f) the financial stability of the lender.

The interest rate must not exceed the rate provided by T-Corp. The loan establishment or placement fee must be less than 0.25% and any document fee less than 0.10% of the funds sought. The loan term must not exceed the life of the asset being acquired and the loan conditions must be favourable.