

# LOAN BORROWING AND OVERDRAFT

Policy | Finance

This Policy sets out the requirements in regard to borrowings, both internal and external and the use of any overdraft facility.

<b>Policy No:</b>	POL/6011	<b>Version:</b>	4
<b>Service Unit:</b>	Finance		
<b>Responsible Officer:</b>	Financial Controller		
<b>Responsible Director:</b>	Director Business and Community Services		
<b>Authorisation Date:</b>	15 June 2020	<b>Review Date:</b>	15 June 2022
<b>Minute No:</b>	77/20		

#### Printing Disclaimer

If you are viewing a printed copy of this document it may not be current. Printed copies of this document are not controlled.

Before utilising a printed copy of this document, verify that it is the most current version by referencing Council's intranet.

## Table of Contents

<b>1</b>	<b>Background.....</b>	<b>3</b>
	1.1 Title of the Policy and Commencement Date.....	3
	1.2 Purpose of the Policy .....	3
<b>2</b>	<b>Objective .....</b>	<b>3</b>
	2.1 Objectives and Coverage of the Policy .....	3
<b>3</b>	<b>Application.....</b>	<b>3</b>
	3.1 Application of this Policy .....	3
<b>4</b>	<b>Definitions .....</b>	<b>3</b>
<b>5</b>	<b>Principles/Body .....</b>	<b>4</b>
	5.1 Procedural Statement.....	4
	5.1.1 Link to Delivery Program and Operational Plan .....	4
	5.1.2 External Loans .....	4
	5.1.2.1 Terms of Loan .....	4
	5.1.2.2 Borrowing Redemption.....	4
	5.1.2.3 Debt Service Ratio – Financial Sustainability .....	4
	5.1.2.4 Lending Institution – TCorp .....	5
	5.1.2.5 Externally Restricted Funds .....	5
	5.1.2.6 Internally Restricted Funds .....	5
	5.1.3 Overdraft .....	5
<b>6</b>	<b>Relevant Legislation.....</b>	<b>5</b>
<b>7</b>	<b>Document Information .....</b>	<b>6</b>
	7.1 Related Documents.....	6
<b>8</b>	<b>Responsible Officer / Policy Owner .....</b>	<b>6</b>
<b>9</b>	<b>Responsibilities .....</b>	<b>6</b>
<b>10</b>	<b>Approval.....</b>	<b>6</b>
<b>11</b>	<b>Monitoring .....</b>	<b>6</b>
<b>12</b>	<b>Review Date .....</b>	<b>6</b>
<b>13</b>	<b>Last Review Date .....</b>	<b>7</b>
<b>14</b>	<b>Record Keeping, Confidentiality and Privacy .....</b>	<b>7</b>
<b>15</b>	<b>Breaches and Sanctions .....</b>	<b>7</b>



## 1 Background

### 1.1 Title of the Policy and Commencement Date

The Loan Borrowing and Overdraft Policy will be effective upon adoption by Council.

### 1.2 Purpose of the Policy

This policy sets out the requirements in regard to borrowings, both internal and external and the use of any overdraft facility.

## 2 Objective

### 2.1 Objectives and Coverage of the Policy

The objective of the Loan Borrowing and Overdraft Policy is to:

- ensure that all borrowings (both internal and external) are in accordance with relevant legislative provisions
- ensure the total amount of the loan borrowings is sustainable in terms of Council's ability to meet future repayments and budgetary obligations
- meet the industry best practice standard in respect of an organisation's Debt Service Cover Ratio (DSCR) of greater than 2.00 percent.

## 3 Application

### 3.1 Application of this Policy

The authority to authorise loans and/or Council funding requirements is vested with Council by virtue of the *Local Government Act, 1993*. No officer of Council is authorised to undertake the establishment of a new loan facility without the authorisation of Council.

## 4 Definitions

For the purposes of this policy:

Term	Meaning
Borrowing costs	Interest and other costs that an entity incurs in connection with the borrowing of funds.
Loan facilities	A line of credit providing access to borrow money up to a particular amount.
Overdraft facility	A flexible line of credit providing access to funds to manage the day to day cash flow needs of an organisation



## **5 Principles/Body**

### **5.1 Procedural Statement**

#### **5.1.1 Link to Delivery Program and Operational Plan**

Any borrowings shall be considered as a mechanism to assist the operational objectives of the Council as identified in Council's Delivery Program and Operational Plan.

#### **5.1.2 External Loans**

In considering the need for new loans, the following criteria will be analysed:

- Any proposed borrowing amounts must be contained in Council's Long Term Financial Plan, Delivery Program and Operational Plan.
- Current and estimated future revenues. Where possible loans should only be raised for income producing products, however this will not apply to non-income generating assets such as roads and stormwater drainage. These works will only be considered if the project can demonstrate long term savings by bring works forward.
- Strategic planning for the future of the Council covering short, medium and long term.
- Inter-generational equity considerations in terms of ratepayers who benefit from the expenditure and therefore on a user pay basis, who should pay for the costs associated with such expenditure.
- Current and future funding needs for both operating and capital expenditures.
- Potential movements in interest rates and associated debt servicing costs.
- Ensure where possible that the structure of the borrowing is appropriate for the nature of the asset being funded.
- Any other strategic imperative that is linked to revenue and expenditure capacities.

##### **5.1.2.1 Terms of Loan**

The term of the Borrowing shall be set having due regard to the economic life of the asset being acquired or constructed but not be drawn down for a period in excess of 40 years.

##### **5.1.2.2 Borrowing Redemption**

When surplus funds exist, the decision to repay borrowings shall be made on the facts available at the time with consideration of impact on Council's Long Term Financial Plan and giving due regard to minimising the overall cost to the organisation.

Loans will only be paid out early if there is a significant net financial benefit to Council.

##### **5.1.2.3 Debt Service Ratio – Financial Sustainability**

The Debt Service Ratio (DSR) is the measure of the level of debt servicing costs as a percentage of total revenue from ordinary activities. The DSR indicates the ability to service debt and the risk associated with debt and interest commitments.



It is appropriate for Councils to hold some level of debt given their role in the provision and maintenance of key infrastructure and services for their community. It is considered reasonable by Independent Pricing and Regulatory Tribunal of NSW (IPART) for Councils to maintain a Debt Service Ratio of greater than 2.00 percent.

#### **5.1.2.4 Lending Institution**

Council will call for quotations from the four major Australian banks in order to determine the appropriate lending institution for any new or renewal loan borrowings.

As Singleton Council has been deemed “Fit” under the NSW Government Local Government Reforms, Council is able to access the Statement Government borrowing facility. This borrowing facility is managed by NSW Treasury Corporation (TCorp). The minimum TCorp loan is \$1,000,000 and Council would also need to meet TCorp’s rules in relation to its investment portfolio credit rating breakdown across the financial institutions it invests with.

#### **5.1.2.5 Externally Restricted Funds**

Internal loans from externally restricted funds do not need to be included in the Office of Local Government (OLG) “requested borrowing” return. Internal loans from externally restricted funds must have Ministerial approval before the internal loan can be drawn.

Section 410(3) of the *Local Government Act, 1993 NSW* states:

*“Money that is not yet required for the purpose for which it was received may be lent (by way of internal loan) for use by the council for any other purpose if, and only if, its use for that other purpose is approved by the Minister.”*

#### **5.1.2.6 Internally Restricted Funds**

The use of internally restricted funds is not considered to be an internal loan by the OLG. The use of internally restricted cash for a purpose that is different from its original purpose requires a resolution of Council.

#### **5.1.3 Overdraft**

Council has an overdraft facility established with its financial institution.

The overdraft facility is only used for short term unavoidable and essential cash flow purposes.

Council’s finance staff will generally avoid the use of the overdraft facility via careful cash management practices that ensures sufficient funds are available to fund daily expenditure requirements.

## **6 Relevant Legislation**

*Local Government Act, 1993 NSW*

*Local Government (General) Regulation, 2005 NSW*

Ministers Borrowing Order, as per section 624 of the *Local Government Act, 1993 NSW*



## 7 Document Information

Related documents and reference information in this section provides a single reference point to develop and maintain site compliance information.

### 7.1 Related Documents

Related documents, listed in **Table 7-1** below, are internal documents directly related to or referenced from this document.

Number	Title
Nil	

Table 7-1 – Related documents

## 8 Responsible Officer / Policy Owner

Ownership of this policy rests with the Financial Controller.

## 9 Responsibilities

Parties or Persons	Responsibilities
Manager Corporate and Community Services	<ul style="list-style-type: none"> <li>Accountable for implementing this policy and ensuring compliance with this policy and the associated legislative requirements</li> </ul>
Financial Controller	<ul style="list-style-type: none"> <li>The Financial Controller is responsible for ensuring compliance with this policy and the associated legislative requirements.</li> <li>The Financial Controller is responsible for monitoring and managing the day to day cash flow requirements and loan activities to ensure that loan repayments are processed by the due date. Further Council's Long Term Financial Plan is reflective of Council's current and forecasted loan commitments.</li> </ul>

## 10 Approval

As per cover sheet.

## 11 Monitoring

This policy will be monitored by the Director Business & Community Services to ensure compliance.

## 12 Review Date

This policy, once adopted, is to remain in force until it is reviewed by Council. This policy is to be reviewed approximately every two (2) years to ensure that it meets legislative requirements.



### **13 Last Review Date**

This policy was last reviewed on 19 February 2018.

### **14 Record Keeping, Confidentiality and Privacy**

This policy is to be made available for public viewing as required under the *Government Information (Public Access) 2009, NSW*.

### **15 Breaches and Sanctions**

Any breaches of this Policy will be referred to the General Manager for appropriate action.

