

Loan Borrowing Policy

Contents

| | |
|---------------------|---|
| 1. Scope..... | 1 |
| 2. Purpose..... | 1 |
| 3. Policy..... | 1 |
| 4. Delegation..... | 4 |
| 5. Procedure..... | 4 |
| 6. Definitions..... | 5 |

1. Scope

1.1 This Policy applies to all loan borrowings used to fund City of Parramatta Council's (Council) infrastructure and other specific capital projects.

2. Purpose

2.1 This Policy sets out a framework to ensure the prudent management of Council's existing and future debt, including employing Council's financial aim to have balanced annual budgets and a considered long term financial plan.

3. Policy

3.1 Council recognises that loan borrowings for capital works are an important funding source for local government. Loan borrowings provide the opportunity to bring unfunded projects forward and ensure the full cost of infrastructure is not borne entirely by present-day ratepayers.

3.2 The following measures should be employed to support the prudent management of Council's existing and future debt:

- (a) providing a prudential framework and documented policies for guidance of Council when considering funding options;
- (b) ensuring all borrowings (both internal and external) are in accordance with legislative requirements;

| Loan Borrowing | | |
|--|---|----------------|
| Owner: Chief Finance and Information Officer | Area: Financial Accounting and Treasury Manager | POL No: 206 |
| Date of Commencement: 1996 | Approval Authority: Council | Date Approved: |
| Amendment: 3 | Date of Next Review: | Review: 4 |

- (c) minimising the cost of borrowings via a structured procurement program;
- (d) ensuring the total amount of loan borrowings is sustainable in terms of Councils ability to meet future repayments and budgetary obligations;
- (e) meeting industry best practice in respect to the organisation's Debt Service Ratio;
- (f) ensuring Council's Loan Borrowing Policy is easily and transparently communicated to all Council stakeholders; and
- (g) raising all external borrowings at the most competitive rates available and from sources as defined in relevant legislation.

3.3 Permissible Reasons to Borrow Funds

3.3.1 The purposes for which Council may borrow funds are:

- (a) for any Capital project approved under Council's Long Term Financial Plan, including for to construct, replace, upgrade assets, or for the specific and significant one-time renewal of an asset;
- (b) for land acquisitions and/or asset acquisitions for strategic property holdings;
- (c) for any expenditures that would be deemed and budgeted as recurrent if there was an urgent, significant public health and safety interest in requiring expenditure ahead of plan, or reason for which Council otherwise chooses to accelerate projects; or
- (d) as bridging finance to enable capital projects to proceed with repayment from committed asset sales or other identified funding sources.

3.3.2 Borrowings should not be used to fund general operations and maintenance projects.

3.3.3 The term of the loan should not exceed the expected economic life of the asset being funded.

3.4 Debt Limits

Council will agree on a maximum debt level for any financial year after analysis of the agreed operating ratios listed in section 3.4.1 and verification that repayments can be funded from Council's operating budgets.

| Loan Borrowing | | |
|--|---|----------------|
| Owner: Chief Finance and Information Officer | Area: Financial Accounting and Treasury Manager | POL No: 206 |
| Date of Commencement: 1996 | Approval Authority: Council | Date Approved: |
| Amendment: 3 | Date of Next Review: | Review: 4 |

3.4.1 Debt Limit Ratios

Council's net debt outstanding at any time, both current and forecast, is to be geared to its financial capacity to service debts as determined by the financial covenants of the Debt Service Coverage ratio, whereby the ratio measures the availability of operating cash to service debt including interest, principal, and lease repayments. The benchmark is > 2.

3.5 Debt Management Framework

Council's debt will be procured and managed in accordance with the following framework:

3.5.1 Compliance: Adhere to Part 12 sections 621-624 of the *Local Government Act 1993* (NSW) and all internal Council guidelines in relation to debt procurement.

3.5.2 Availability: Finance facilities should be available to be drawn down when required.

3.5.3 Diversification: No undue reliance on any one provider.

3.5.4 Cost Effectiveness: Tender process should ensure maximum price competitiveness.

3.5.5 Interest Risk Management: Contain the potential for financial loss from unfavourable movements in interest rates, in accordance with Council's risk management preferences.

3.5.6 Process: All new facilities, rollover of existing facilities or refinancing, should be procured via the expression of interest process using a selective tender to major financiers active in the local government debt market.

3.5.7 External Advice: Council may engage external financial advice in relation to loan borrowings and interest risk management.

3.5.8 Source of Finance: All Council borrowings must be sourced from over-the-counter debt markets (i.e. Bank Debt market).

| Loan Borrowing | | |
|--|---|----------------|
| Owner: Chief Finance and Information Officer | Area: Financial Accounting and Treasury Manager | POL No: 206 |
| Date of Commencement: 1996 | Approval Authority: Council | Date Approved: |
| Amendment: 3 | Date of Next Review: | Review: 4 |

4. Delegation

4.1 There are Administrative and/or Legislative Delegations applicable to this Policy, which are provided for in Council's Delegations Manual.

5. Procedure

5.1 All borrowings are subject to Council Approval.

5.2 Prior to undertaking any borrowing, Council should assess its capacity to repay the loan, including in the event of interest rate changes.

5.3 Once borrowing has been approved by Council, an Expression of Interest (EOI) process will be conducted with appropriate lending institutions.

5.4 Authorised Deposit Taking Institutions (including T-Corp) will be invited to submit written quotations on Council's borrowing requirement, as prescribed in the Local Government Borrowing Order dated 13 of May 2009.

5.5 A minimum of three written quotations will be obtained for Council's approved loan borrowing from Authorised Deposit Taking Institutions.

Appropriate and acceptable documentation must be provided to Council by any prospective lender during the EOI process. Written quotations must include (but not limited to) the:

- (a) interest rate;
- (b) term of the loan;
- (c) repayment intervals (e.g. monthly, quarterly);
- (d) repayment instalment amount; and
- (e) any applicable fees.

5.6 The calculation process for any loan break costs must be clearly set out in the loan documentation.

5.7 Council must be advised of the term of the loan proceeds within thirty (30) days of finalising the loan.

| Loan Borrowing | | |
|--|---|----------------|
| Owner: Chief Finance and Information Officer | Area: Financial Accounting and Treasury Manager | POL No: 206 |
| Date of Commencement: 1996 | Approval Authority: Council | Date Approved: |
| Amendment: 3 | Date of Next Review: | Review: 4 |

- 5.8 Internal Borrowings: Funds can be borrowed internally from the section 7.11 and 7.12 reserve established by Council, only for the purpose of other section 7.11 and 7.12 works specified in the works schedule in Council's Contributions Plan. These funds cannot be used to fund works that are not part of the section 7.11 and 7.12 works schedule. Funds can be used from internally restricted revenues as an internal loan in place of external borrowings. A repayment schedule for repaying internal borrowings must be determined in each instance to ensure internal reserves can be repaid. All such borrowings must be approved by Council Resolution and cannot be delegated.
- 5.9 Council must report to the Office of Local Government (OLG) by July each year to outline the Council approved loan borrowings for the following financial year.
- 5.10 Council should be advised monthly of the current Loan portfolio balance, including the weighted average interest rate of borrowings.
- 5.11 Council's Finance unit will periodically review the debt portfolio to ascertain if there is an opportunity for refinancing which will deliver more financially prudent outcomes for Council.

6. Definitions

| | |
|--|---|
| Authorised Deposit Taking Institutions | Corporations authorised under the <i>Banking Act 1959</i> (Cth) to take deposits from customers and are regulated by the Australian prudential regulation authority (APRA). |
| Council | City of Parramatta Council |
| Debt Service Ratio | An indicator of the extent to which council's operating revenue is committed to servicing both interest and the repayment of principal on existing loans. The OLG consolidated key performance is applied as a benchmark. |

| | |
|---------------------|--|
| REFERENCES | <i>Local Government Act 1993</i> (NSW) – Part 12 – Loans <i>Local Government (General) Regulation 2021</i> (NSW) Local Government Circulars and Directives Minister's Borrowing Order |
| ASSOCIATED POLICIES | Nil |
| ATTACHMENTS | Nil |

| Loan Borrowing | | |
|--|---|----------------|
| Owner: Chief Finance and Information Officer | Area: Financial Accounting and Treasury Manager | POL No: 206 |
| Date of Commencement: 1996 | Approval Authority: Council | Date Approved: |
| Amendment: 3 | Date of Next Review: | Review: 4 |