



Loan Borrowing Policy

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1. Scope: Policy Statement

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

~~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 be borne entirely by present-day ratepayers.~~

~~The proceeds of any loan borrowings may only be utilised to fund the following:~~

- ~~• Land acquisitions~~
- ~~• Asset acquisitions for strategic property holding.~~
- ~~• New assets constructed, e.g. roads, sports/aquatic centre, sporting field, arts centre etc.~~
- ~~• An asset replacement, e.g. a road reconstruction.~~
- ~~• An asset upgrade, e.g. a footpath widening.~~
- A specific and significant one time asset renewal, i.e. replacement or refurbishment of significant asset components.

~~As a point of principle, borrowings should not be used to fund general operations and maintenance projects as subsequent loan repayments will reduce funds otherwise available.~~

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Commented [MM2]: Merged with clause 3.3.1 under Policy section

Commented [MM3]: Moved to Policy section, as clause 3.3.2

2. Objectives Purpose

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Owner Manager Finance	Area: Finance	POL No: 206
Date of Commencement: 1996	Approval Authority: Council	Date Approved: 10 July 2017
Amendment 2	Date of Next Review: 2019	Review period: every 2 years

~~2.1 The Core objective of the Loan Borrowing This Policy is sets out a framework to ensure the sound prudent management of Council's existing and future debt, bearing in mind including employing Council's financial aim to have balanced annual budgets and a considered long term financial plan.~~

~~This core objective can be achieved with consideration to the following prudent measures:~~

~~2.1 The provision of a prudential framework and documented policies for guidance of Council when considering funding options.~~

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~~2.2 Ensuring all borrowings (both internal and external) are in accordance with legislative requirements.~~

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~~2.3 Minimising the cost of borrowings via a structured procurement program.~~

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~~2.4 Ensuring the total amount of loan borrowings is sustainable in terms of Councils ability to meet future repayments and budgetary obligations.~~

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~~2.5 Meeting industry best practice in respect to the organisation's Debt Service Ratio.~~

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~~2.6 Ensuring Council's debt policy is easily and transparently communicated to all Council stakeholders.~~

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~~2.7 Providing a basis for an annual review of this policy document when Council's Long Term Financial Plan is reviewed and at any time that an out of plan borrowing is considered.~~

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~~2.8 Council raises all external borrowings at the most competitive rates available and from sources available as defined in relevant legislation.~~

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3. Policy Framework

~~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 be 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;~~

~~(c) minimising the cost of borrowings via a structured procurement program;~~

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- (d) ensuring the total amount of loan borrowings is sustainable in terms of Council's 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 available as defined in relevant legislation.

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3.3 Permissible Reasons to Borrow Funds

3.3.1 The purposes for which Council may borrow are: -

~~2.9 (a) For any Capital project approved under Council's Long Term Financial Plan, including for to construct, replace, or upgrade assets, or for the specific and significant one-time renewal of an asset;~~

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~~(b) for land acquisitions and/or asset acquisitions for strategic property holdings;~~
~~2.10 (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 or Council otherwise chooses to accelerate projects; or~~

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~~2.14 (d) As bridging finance to enable capital projects to proceed with repayment from committed asset sales or other identified funding sources.~~

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~~Prior to undertaking any borrowing, Council shall assess its capacity to repay the loan ensuring the community is not burdened with unnecessary risk including interest rate changes.~~

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

~~2.123.3.3 The term of the loan should not exceed the expected economic life of the asset being funded.~~

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3.4 Debt Limits

~~2.13 Council shall will agree a maximum debt level for any financial year after analysis of the agreed operating ratios listed in section 3.74.1 and verification that repayments can be funded from Council's operating budgets.~~

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3.4.1 Debt Limit Ratios

~~2.14 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 following financial covenants: of the Debt Service Coverage ratio, whereby~~

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~~Debt Service Coverage ratio:~~

~~The ratio measures the availability of operating cash to service debt including interest, principal and lease repayments.~~

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The Benchmark is > 2.

3.5 Debt Management Framework

2.15 Council's debt will be procured and managed within the following framework:

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3.5.1 Compliance with: Adhere to Governing legislation (4.1-4.4) 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 are ~~should be~~ available to be drawn down when required.

2.15.4 3.5.3 Diversification: No undue reliance on any one provider.

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2.15.23.3.3 3.5.4 Cost Effectiveness: Tender process ~~to~~ should ensure maximum price competitiveness.

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2.15.3 3.5.5 Interest Risk Management: ~~To~~ contain the potential for financial loss from unfavorable movements in interest rates, in accordance with Council's risk management preferences.

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2.15.4 3.5.6 Process: All new facilities, rollover of existing facilities or refinancing, ~~is to~~ should be procured via the expression of interest process using a selective tender to major financiers active in the local government debt market.

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2.15.5 3.5.7 External Advice: Council may engage external financial advice in relation to loan borrowings and interest risk management.

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2.15.6 3.5.8 Source of Finance: All Council borrowings ~~will~~ must be sourced from "over-the-counter" debt markets (i.e. Bank Debt market).

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Reporting

~~2.16.3 Council will be advised on a monthly basis of the current Loan portfolio balance including the weighted average interest rate of borrowings.~~

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Policy Review

~~3.10 The policy is to be reviewed annually. Next Review June 2018.~~

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4. Delegation

~~3.11 The Chief Executive Officer is the custodian of the Policy and may delegate its implementation. There are Administrative and/or Legislative Delegations applicable to this Policy, which are provided for in Council's Delegations Manual.~~

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3. Governing Legislation

~~3.3 Local Government Act 1993 – Part 12 – Loans~~

~~3.4 Local Government (General) Regulation 2005 NSW~~

~~3.5 Minister's Borrowing Order~~

~~3.6 Local Government Circulars and Directives~~

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5. Procedure

~~5.1 All borrowings will be~~ are subject to Council ~~A~~ approval.

~~3.4 5.2 Prior to undertaking any borrowing, Council shall assess its capacity to repay the loan ensuring the community is not burdened with unnecessary risk including interest rate changes.~~

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~~3.2 5.3~~ Once a borrowing has been approved by Council, an 'Expression of Interest' (EOI) process will be conducted with appropriate lending institutions.

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~~3.3 5.4~~ Authorised Deposit Taking Institutions (Including T-Corp) will be invited to submit written quotations on Council's borrowing requirement, ~~a~~As prescribed in the Local Government Borrowing Order dated 13 of May 2009, which states: "A Council shall not borrow from any source outside the Commonwealth of Australia nor in any currency other than Australian Currency"

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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:

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- (a) ~~Interest rate;~~
- (b) ~~Term of the loan;~~
- (c) ~~Repayment intervals (e.g. monthly, quarterly etc);~~
- (d) ~~Repayment installment amount; and~~
- (e) ~~any applicable fees.~~

~~3.4 A minimum of three written quotations will be obtained for Council's approved loan borrowing from Authorised Deposit Taking Institutions.~~

~~3.5 Appropriate and acceptable documentation must be provided to Council by any prospective lender during the EOI process.~~

~~3.6~~ 5.6 The calculation process for any loan break costs must be clearly set out in the loan documentation.

~~3.7 The CEO has authority to accept loan offers, subject to the borrowing amount being previously approved by Council and the requirements of the 'Loan Borrowing Procedure' being adhered to.~~

~~3.8~~ 5.7 The Council ~~will~~ must be advised of the term of the loan proceeds ~~once finalized~~ within thirty (30) days of finalising the loan.

~~3.9~~ 5.8 Internal Borrowings: Funds can be borrowed internally ~~within from~~ the section ~~94 7.11 and 7.12~~ reserve established by Council, only for the purpose of other ~~section 94 7.11 or 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 94 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 to repay internal borrowings ~~will~~ must be ~~drafted~~ determined in each instance to ensure repayments to internal reserves can be funded repaid. All such borrowings must be approved by Council ~~R~~ Resolution and cannot be delegated.

~~5.9~~ The Borrowings Return form must be submitted to Council must report to ~~the~~ Office of Local Government (OLG) by July each year to outline Council's approved loan borrowings for the following financial year.

~~5.10~~ Council will be advised on a monthly basis of the current Loan portfolio balance including the weighted average interest rate of borrowings.

~~3.14~~ 5.11 The Council's Finance team unit will periodically review the debt portfolio to ascertain if there is an opportunity for refinancing which will deliver positive more financially prudent outcomes ~~to~~ for Council.

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56 Definitions

<u>Authorised Deposit Taking Institutions</u>	<u>Corporations authorised under the Banking Act 1959 (Cth) to take deposits from customers and are regulated by the Australian</u>
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	<u>prudential regulation authority (APRA).</u>
<u>Council</u>	<u>City of Parramatta Council</u>
<u>Debt Service Ratio</u>	<u>This is 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 indicator is currently 10%) applied as a benchmark.</u>

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~~3.12 **Interest Cover Ratio:** This ratio indicates the extent to which a council's operating revenue is committed to the repayment of interest expenses from loans~~

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~~3.13 **Debt Service Ratio:** This is 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 indicator is currently 10%)~~

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~~3.14 **Debt to Service Result:** $\text{Net Debt Outstanding} / \text{Service Result}$~~

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

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