10.9. REVIEW OF BORROWING POLICY FOR PUBLIC EXHIBITION - ATTACHMENT

Attachment Titles:

1. Draft Borrowing Policy SVC-FIN-PO-106-02

Attachment 1 - DRAFT Borrowing Policy

Snowy Valleys Council

Policy Title	Borrowing Policy
Policy Category	Public
Number & Version	SVC-FIN-PO-106-02
Policy Owner	Finance Manager
Approved by	Council
Effective date	
Date for review	31 March 2025

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Deleted: Chief Financial Officer

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1. STRATEGIC PURPOSE

This policy sets out Council's loan borrowing requirements, both internal and external, with consideration given to the following primary objectives:

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- 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.
- Detail Council's planned financial management strategy for existing and future debt.
- Minimise the cost of borrowing.
- Meet industry best practice in respect to Council's Debt Service Ratio.
- 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.

2. POLICY STATEMENT

2.1 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 aspiration 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.

Council will not enter into any financing arrangements which involve the repayment of interest only.

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Council will restrict all borrowings to expenditure on identified capital projects that are considered by Council to be of the highest priority, and which are unable to be funded from revenue. Under no circumstances will Council borrow funds for recurrent expenditure.

New assets, that are income producing, may be funded from debt.

Where a capital project for a service that is funded by user charges (e.g. waste, water or sewer) is determined to be funded by way of loans, the user charge should reflect the cost of providing the service (including any loan repayments).

Other specific capital projects, not funded by user charges, will only be considered for loan funding where the project is considered by Council to be beneficial to the majority of ratepayers.

Financing of critical infrastructure assets requires a strategic approach to evaluate the risk exposure to Council.

In considering the impact of borrowing on Council's budget Council will be guided by:

- The Long-Term Financial Plan resourcing the Community Strategic Plan
- The relevant Asset Management Plan or Integrated Water Cycle Management Plan informing the Community Strategic Plan
- Achieving the benchmark Operating Result Ratio
- Achieving the benchmark Asset Renewal Ratio
- Debt Service Ratios

Deleted: This policy applies to all borrowing of Council. It is intended to govern the objectives, procedures and controls in relation to Council's borrowing decisions and processes.¶

Deleted: Council has a strong preference for certainty in relation to debt repayment, management of risk, and to minimise administrative complexity.

2.2 Scope

The following provides some context for the above principle points.

When to use debt?

The use of debt is closely linked to the concept of intergenerational equity. Operating and asset renewal expenses should be paid by current residents and therefore current revenue. Expenditures that provide benefits over many years should be paid for by users that benefit from the works over its economic life. This cannot be achieved by accumulating current revenues for future expenditure but is achieved by using current revenues to fund loan repayments over the life of the asset.

Debt is also appropriate where the expenditure results in a reduction of operating costs or an increase in operating revenues that cover the cost of borrowing. There may also be emergency situations where works are required urgently to avoid significant risks or escalations in remediation costs.

How will a project be approved for funding?

Assessment of a project will incorporate the following mandatory analysis:

Council Priorities

Does the project outcome support an objective of Councils Strategic Priorities?

A risk evaluation in the case of crutical infrastructure projects.

Community Expectations

The project outcome must align to an action adopted under the Community Strategic Plan and Council's Delivery Program.

Asset Management

Is the expenditure programmed in the appropriate Asset Management Plan adopted by Council under the integrated planning and reporting provisions of the Local Government Act?

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Will the project contribute to Council maintaining its Asset Renewal Ratio at or above the industry Asset Renewal Ratio benchmark?

Financial Management

Have the operating and capital cost of a project been accurately assessed and entered into Council's Long-Term Financial Plan to determine the financial impact of a project and the capacity for Council to maintain a positive Operating Result Ratio?

Risk Management

All projects shall be evaluated under the Project Risk Assessment Matrix and identified risks will be mitigated or managed as documented in the risk assessment where possible, or where found to be not possible, the project will not proceed.

When is debt affordable?

Debt is affordable where the works are self-funding either from reduced operating costs or an increase in revenues or the net result of both. Alternatively, debt is only affordable if the relevant fund has an operating surplus sufficient to cover the loan repayments. Operating revenues should be able to cover cash operating expenses as well as non-cash accruals for leave entitlements, depreciation and remediation, before committing to loan repayments, for the fund to be financially sustainable. The fund is required to maintain a positive Operating Result Ratio to achieve industry benchmarks.

What are appropriate sources and terms of debt?

The Office of Local Government will set controls for borrowings which may change at any time and Council needs to keep aware of these through the related legislation and references below. Council will not indulge in speculative debt arrangements and will adhere to standard table loans with set monthly, quarterly or bi-annual instalments and rates fixed for at least ten years. Repayment periods will not exceed the economic life of the works to ensure intergenerational equity.

3. DEFINITIONS

Term	Meaning
Annual Charges	Has the same meaning as determined by the Local Government Act
Asset renewal ratio	$\frac{\text{Asset Renewals}}{\text{Depreciation, Amortisation \& Impairment Expense}}$ This ratio measures Council's ability to renew assets at a rate equivalent to or greater than the consumption expense of Council's assets each year. Industry benchmarks require a ratio of 1 or above.
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	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.
Critical Infrastructure	Assets that are essential for the functioning of the Snowy Valleys Council and provision of services for the everyday life of the community.

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Term	Meaning
Debt service ratio	The debt service cover ratio is calculated as: $$\frac{\text{Operating result before capital excluding interest and depreciation/impairment/amortisation}}{\text{Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)}}$$ This ratio measures the availability of operating cash to service debt including interest, principal and lease payments (The OLG consolidated key performance indicator is greater than 2)
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.
Loan facility	A line of credit providing access to borrow money up to a particular amount.
Long term credit rating	A forward looking opinion about credit risk, by a recognised and reputable rating agency, as allowed under the Ministerial Investment Order.
Long-Term Financial Plan	Council's Ten (10) year budget maintained in its resourcing strategy in accordance with Section 403 Local Government Act, 1993 NSW
Lumpy assets	Assets that when due for renewal will require funding that is greater than two years of renewal funding for that particular asset, as defined in the Asset Management Plan (AMP) and Sub-Plans. An example would be replacing the roof on a building.
Operating result ratio	$$\frac{\text{Operating Revenue excluding Capital grants \& Contributions less Operating Expenses}}{\text{Operating Revenue excluding Capital grants \& Contributions}}$$ This ratio measures Council's achievement of containing operating expenditure within operating revenue. The industry benchmark is greater than or equal to break even average over three years.
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	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.

4 CONTENT

Pursuant to Part 12 of the Local Government Act 1993 NSW, Council may borrow at any time for any purpose allowed under the Act. This policy has been developed to ensure compliance

Deleted: Borrowing – take and use (money) from an external party under an agreement to pay it back later¶
Loan – a sum of money that is expected to be paid back with interest¶
Capital Asset – an asset with a useful life longer than one year that is not intended for sale in the regular course of operations

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with legislative requirements under sections 621 – 624 of the Local Government Act 1993 NSW (the Act), sections 229 – 230 of the Local Government (General) Regulation 2021, and a borrowing order signed by the Minister Local Government (Office of Local Government Circular, 09-21).

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4.1 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 bringing 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.

4.2 Terms of Loans

The term of the loan should not exceed the expected economic life of the asset being funded, subject to the maximum periods below

Borrowing Amount	Term
$500,000 to $2,000,000	Maximum 10 years
$2,000,000 to $5,000,000	20 years
Greater than $5,000,000	30 years

4.3 Determination of Appropriate Lending Institution

Once borrowing has been approved by Council, within its Delivery Program 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;

- Loans of up to $10,000,000 will require three quotations from Institutions in accordance with the restrictions within this policy; and
- Loans greater than $10,000,000 will require Council to tender for the loan, which may include a borrowing facility.

Quotations/Tenders will be sought from ADIs with a long-term credit rating of A- or above in order to determine the appropriate lending institution for any new or renewal loan borrowings.

Written quotations/tenders must include:

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- Interest rate - may be fixed or variable for the term of the loan;
- Term of the loan;
- Repayment intervals (monthly, quarterly or bi-annually);
- Repayment instalment amount (principal and interest only);
- Any applicable fees;
- 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.

4.4 Borrowing Authorisation

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

Council must have resolved to borrow funds as part of its Delivery Program and annual budget, before funds are borrowed.

The General Manager has the authority to accept loan offers, subject to the borrowing amount being previously approved by Council and the requirements of this policy being adhered to.

Council will be advised of the terms of the loan once finalised.

The 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.

The Finance team will periodically review the debt portfolio to ascertain if there is an opportunity for refinancing which will deliver positive outcomes to Council.

4.5 Limitations

Current borrowing restrictions are prescribed in the Local Government Borrowing Order 09 - 21 which states:

A council shall not borrow from any source outside the Commonwealth of Australia nor in any currency 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 and Annual Charges, in any one year, and
- That the total amount of borrowings meets the debt service cover benchmark of >2 times.

4.6 Internal Borrowing

From Externally Restricted Funds

Internal loans from externally restricted funds do not need to be included in the 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."

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From 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.

Council has determined that funds can be borrowed from Internally Restricted Reserves 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
- Funds can be borrowed internally, within the Section 94 Reserve, only for the purpose of other Section 94 works and cannot be used to fund works that are not part of the Section 94 works schedule

4.7 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.

4.8 Compliance and Monitoring

Borrowing costs and borrowings will be treated in Financial Statements and all Financial Reporting in accordance with the Australian Accounting Standards.

As per clause 230 of the Local Government (General) Regulation 2021, Council is required to report loans drawn down within 7 days to the OLG Secretary.

5 ASSOCIATED LEGISLATION

Local Government Act 1993 NSW

Local Government (General) Regulation 2021

Local Government Revised Borrowing Order 09-21

NSW Office of Local Government Capital Expenditure Guidelines

Australian Accounting Standards

Local Government Code of Accounting Practice & Financial Reporting

Local Government Circular 09-21

Minister's Borrowing Order (gazetted)

6 ASSOCIATED COUNCIL DOCUMENTS

Community Strategic Plan

Asset Management Policies and Procedures

Integrated Water Cycle Management Plan

Long-Term Financial Plan

Financial Statements

Long term financial plan

7 HISTORY

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Council will not use long-term debt to finance current operations. Debt may be used to fund capital expenditure that provides future service benefits and long-term debt will only be used for income producing capital assets or those assets that can be matched to a revenue stream. Consequently, repayments for the borrowings will be funded from the revenue streams generated by the asset acquisition in question.¶
Council will utilise long-term borrowing only for capital improvement projects that cannot be financed from existing sources. Capital projects are to be only undertaken after a thorough process of evaluation, including whole-of-life-costing, sustainability and risk assessments and project prioritisation.¶
Terms¶
When Council finances capital projects through borrowings it will generally pay back the loans in a term not exceeding 20 years. However, in certain circumstances, particularly for assets with very long useful lives; borrowings may be for a longer period whereby repayments would match the income stream of the asset in question.¶
Considerations¶
Council continually ensures repayment schedules are well within Council's operating capability so as to ensure the community is not burdened with unnecessary risk. Consideration must be given to the long-term financial forecast before planning new borrowings. Where Council finds itself in a strong liquidity position it shall consider replacing borrowings with cash. However, the intergenerational responsibility element of any loan funding will also be considered.¶
Responsibilities/accountabilities¶
Accountability for debt management shall be the responsibility of the Executive Leadership Team.¶
Specific responsibilities:¶
Mayor and Councillors – approval of proposed borrowings¶
Chief Financial Officer – responsible to ensure debt is appropriately accounted for in the financial accounts and balances are reported to Council quarterly¶
Finance Officers – responsible for loan tenders and administration of loans¶
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Borrowing Policy Reviewed:

Date	Action	Name	Policy Number	Resolution Date	Resolution Number
30/07/2013	Superseded	Borrowing Policy (Former Tumut Shire Council)	Fin .13	30/07/2013	43
30/07/2020	For Public Exhibition	Borrowing Policy	SVC-FIN-PO-106-01	30/07/2020	OPS11/20
7/09/2020	Adopted No Submissions	Borrowing Policy	SVC-FIN-PO-106-01	n/a	
	For Public Exhibition	Borrowing Policy	SVC-FIN-PO-106-02		

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