

# LOANS BORROWING POLICY

<b>Reference number:</b>	POL 019
<b>Approval date:</b>	17 October 2022
<b>Policy owner:</b>	Chief Financial Officer
<b>Next review:</b>	September 2029

Loan borrowings are an important source of funding for Council's capital works. However, there are legislative requirements that must be complied with, and repayment commitments must be managed to avoid adverse annual budget effects.

Council can elect to borrow either externally through financial institutions, or if balances allow, from internal reserves.

Loan borrowings (other than borrowings for the purposes of sewerage fund, domestic waste management or declared business operation), by Council shall:

- Comply with the Borrowing Order made from time to time by the Minister of Local Government
- Be in accordance with Council's Operational Plan prepared pursuant to section 404 of the Local Government Act 1993 (as amended).
- Be drawn down in amounts for either individual or combined capital expenditure projects
- Carry principal and interest repayment commitments such that Council's total repayment commitments do not exceed the benchmarks of consolidated debt servicing ratio of equal to or greater than 2.0 and interest cover ratio of equal to or greater than 4.0.
- Loan borrowings for the purposes of sewerage fund, domestic waste management or declared business operations shall
- Comply with the Borrowing Order made from time to time by the Minister of Local Government
- Be in accordance with Council's Operational Plan
- Be drawn down in amounts for either individual or combined capital expenditure projects
- Refinancing of borrowings shall
- Comply with the Borrowing Order made from time to time by the Minister of Local Government
- Be for no longer term than the remainder of the notional term of the original money borrowing unless resolved by Council

## Purpose

To ensure that Council's loan borrowing procedures and commitments

- Comply with relevant legislation
- Stay within optimum levels for annual budget and other financial purposes

## Scope

This policy applies to all borrowings from external sources.

## Policy Provisions

### Responsibilities

**Elected Council** is responsible for formulating, reviewing and revising Council policy. Due to the existence of sections 435-438 of the Local Government Act, elected members have a direct interest in enforcing the provisions of this policy.

### Reporting Requirements

Council is required to complete a proposed loan borrowings request for the Office of Local Government each year for all proposed external loan borrowings. If there is an increase in the amount of borrowings required for the year, Council must pass a resolution to this affect and notify the Office of Local Government of the increase.

Council reports all external loan borrowings annually in its financial statements.

### Approval Arrangements

A Council resolution is required prior to the drawing down of funds both for external loan borrowings, and internal loan borrowings.

### Review procedures

Council will review the level of borrowings each year during the Integrated Planning and Reporting process to ensure that benchmark levels are maintained.

## Legislative Context

- The borrowing of money is a matter that Council is not permitted to delegate (Section 377 Local Government Act).

## Related Documents

- Local Government Act 1993
- Local Government (General) Regulations 2021
- Local Government Code of Accounting Practice and Financial Reporting
- Minister of Local Government Borrowing Order pursuant to section 624 of the Act (Appendix A11, Code of Accounting Practice)
- Wagga Wagga City Council's Operational Plan
- Wagga Wagga City Council's Long-Term Financial Plan
- Division of Local Government Capital Expenditure Guidelines

## Definitions

Term	Definition
Capital expenditure projects	Projects identified as capital projects in Council's Operational and Long-Term Financial Plan
Debt Service Cover Ratio (DSCR)	<p><u>Operating results before interest &amp; depreciation</u>  <u>Principal repayments (as per statement of cash flows) +</u>  <u>Borrowing interest costs (as per income statement)</u></p> <p>This ratio measures the availability of operating cash to service debt including interest, principal and lease payments. Benchmark = Greater than 2.0x</p>
Declared business operations	means operations declared by Council for the purposes of the implementation of National Competition Policy.
External Loan	A loan funded from a financial institution
Interest Cover Ratio	<p><u>Operating results before interest &amp; depreciation</u>  <u>Borrowing interest costs (as per income statement)</u></p> <p>This ratio indicates the extent to which a Council can service its interest-bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon a Council's operating cash. Benchmark = Greater than 4.0x</p>
Internal Loan	A loan funded from one (1) or more of Council's internal reserves.
Notional term	relates to the full term of a loan which has a fixed rate for only a portion of that term.
Operational Plan	means the operational plan prepared pursuant to section 404 of the Local Government Act 1993 (as amended)
Refinancing	means borrowings related to the re-negotiation of a maturing loan where the <i>notional term</i> has not been completed.

## Revision History

Revision number	Council resolution	Council meeting date
1	Res. No. 04/243	23 August 2004
2	Res. No. 09/077	27 July 2009
3	E-Team	18 June 2013
4	Res No: 13/224.1	26 August 2013
5	Res No: 17/279	28 August 2017
6	Res No: 22/354	17 October 2022