



Bayside Council

Serving Our Community

Loan Borrowing Policy

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Loan Borrowing Policy

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Enquiries: Chief Financial Officer



Telephone Interpreter Services - 131 450

Τηλεφωνικές Υπηρεσίες Διερμηνέων

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1 Introduction

1.1 Background

This Policy applies to loan borrowings used to fund infrastructure and other capital projects.

Council recognises that loan borrowings are an important funding source for Local Government. It provides the opportunity to bring unfunded projects forward and ensures the full cost of infrastructure and other capital is not borne entirely by present-day ratepayers.

Borrowing provides financial leverage to maximise additional net returns to the community, either in scale or in pace, than otherwise would be possible.

Borrowings must be made in accordance with relevant regulatory requirements, be managed in a prudent manner, and must support the financial sustainability of the Council.

1.2 Scope of Policy

This policy applies to external loans considered and / or entered into by Council.

1.3 Policy Statement

Council is committed to embedding prudent guidance and control on borrowings.

1.4 Definitions

The definitions of certain terms are:

Benefit

This is both quantifiable monetary benefit, as identified by a business case, and non-quantifiable benefit as identified from community consultation and as determined by the community through their elected Council representatives.

Economic life

The period from initial borrowing to a future point of time, where the asset financed requires major refurbishment in order for it to continue delivering the service at its original standard.

Employee

Any person with an employment contract with Council and works on a full time, part time or casual basis excluding contractors, consultants or volunteers.

We, us, our

Bayside Council

Net Present Value

Net Present Value is the difference between the present value of cash inflows and the present value of cash outflows over a period of time, based on an appropriate rate of return.

2 What we will borrow for

We may borrow funds for:

- Projects that have irregular timing in their capital cash flows
- The creation of major refurbishment of our significant infrastructure assets
- Projects that produce future benefits
- Legislative requirements to fund a council asset

We will not borrow funds for:

- Ongoing income to fund projects which have insufficient, applicable future sources of cash inflow (from the project or overall Council) which would enable discharge of the debt
- General operating costs, maintenance activities or other service provision that do not require major assets
- Leveraging returns on financial securities

3 When we will borrow

Funds may only be borrowed, within the limitations of sections 4 and 5 below.

Before seeking to borrow funds, we will consider other measures such as changing the planned timing of project cash flows, internal borrowing, or seeking grants from government or other sources.

Borrowings should generally be the last source of funding to be considered, given interest costs and potential exposure to refinancing risks and variable real interest rates.

Proposals for borrowings must include a detailed business case and cash flow analysis showing:

- For building or purchasing infrastructure – that full funding costs can be repaid over the life of the asset
- The future impact on Council's Long Term Financial Plan (LTFP), having regard for the Council's ability to service debt, the whole of life operating costs of the project, and the overall capacity and/or plan to deliver other future infrastructure projects.

4 Conditions for borrowing

The conditions for borrow are:

- Borrowings will only be made for projects which have a detailed business case. Where applicable, the business case needs to be in accordance with the Capital Expenditure Guidelines, December 2010, issued by the Office of Local Government (OLG). The project's future cash flows should be detailed, ensuring that all debt can be discharged in the earliest possible timeframe, but no longer than the assessed economic life of the assets purchased or constructed.
- Major refurbishment of any assets built using borrowed funds needs to be accounted for in the business case cash flows.

- Debt discharge should primarily be sourced from net positive cash flows specifically generated by the project. It can also be sourced from reliable cash flows from other sources. This latter source will require a resolution of Council to use these sources, as funds will be diverted from other potential uses, resulting in the debt discharge having priority over other potential uses for the funds.
- All possible sources of funding should be considered in conjunction with the Project capital expenditure analysis. The timing of project cash outflows maybe optimised to improve the availability of internal and/or external funds to meet borrowing needs.
- The total amount of borrowings outstanding at any time should be such that the average cost of debt servicing over any period of three financial years is less than 10% of Council operating revenue. This percentage is calculated as follows:

$$\frac{\text{Total Principal Repayments + Interest}}{\text{Operating Revenue – Restricted Grants}} \leq 10\%$$

5 Legislative limitations on borrowing

Legislative limitations are set out in:

- Local Government Act (1993)
- Local Government (General) Regulation (2005)
- NSW Minister’s Borrowing Order
- Local Government Circular 09-21

Legislative limitations include:

- Borrowings can only be made against the security of Council’s ordinary rates income. Council assets cannot be offered as security
- Council shall not borrow from any source outside the Commonwealth of Australia, nor in any other currency other than Australian currency
- The Office of Local Government (OLG) must be informed, by June of each year, of the total amount of borrowings proposed for the following financial year. This information must be provided in the format required by the OLG. The information must also be updated, as necessary, when any changes in quantum of borrowings occur or where other relevant borrowing conditions are specified by the OLG.

6 Compliance and monitoring

We will set out borrowing costs and borrowing amounts in our financial statements, in line with Australian Accounting Standards and the Local Government Code of Accounting Practice and Financial Reporting. 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 performance indicator.

- Debt service cover ratio: This ratio measures the availability of operating cash to service debt including interest, principal and lease payments.

Benchmark: >2x

We will review all loans at least annually. We will consider any actions necessary to match our evolving financial requirements and optimise debt cost. These actions may include:

- Debt consolidation
- Change to lower cost providers
- Other changes to loan terms.

7 Policy implementation

7.1 Policy responsibilities

Strategic responsibility: Director City Performance
Implementation responsibility and policy owner: Manager Finance

7.2 Procedures

Appendix 1 sets out the procedures for borrowing funds.

Other operational procedures may be approved by the Director City Performance to support this Policy

7.3 Breaches

Breach of this policy may result in performance management by the Office of Local Government.

8 Document control

8.1 Review

The policy is to be reviewed at least every four years, or when there are statutory and/or relevant accounting standards changes.

8.2 Related documents

- Local Government Act (1993) Chapter 15, Part 12 Loans
- Local Government (General) Regulation (2005) NSW
- Minister for Local Government's borrowing orders
- Local Government Circular 09-21 and Directives
- OLG Capital Expenditure Guidelines December 2010

8.3 Version history

Version	Release Date	Author	Reason for Change
1.0	09/12/2020	Financial Strategy & Reporting Manager	New document

Appendix 1 – Procedures for borrowing funds

When Council has identified the borrowing of funds as the selected source of funding, Council will use the following procedures:

