



Randwick City
Council
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GOVERNANCE AND FINANCIAL SERVICES

Borrowing (Loans) Policy

Effective Date:	25 March 2008
Contact Officer:	Manager Financial Operations
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Policy Statement

This policy sets out the requirements in regarding to borrowings, both internal and external, and the use of any overdraft facility.

Policy Objective

To ensure that all borrowings are in accordance with the relevant legislative provisions. To minimise the cost of borrowings. To meet industry best practice in respect to the organisations Debt Service Ratio.

Borrowing Procedures

Definition

Borrowings are funds that Council may obtain from external and internal sources, either by overdraft or loan or by any other means approved by the Minister.

Council may borrow at any time for any purpose allowed under the Local Government Act 1993. Prior to 2007/2008, Ministerial approval was required for any proposed borrowings. This is no longer necessary, however the Minister may impose limitations or restrictions on borrowings.

Council is required to complete the DLG's "requested borrowing" return detailing the projects to be funded by any borrowings.

Link to Management Plan / City Plan

Any borrowings shall be considered as a mechanism to assist in achieving the strategic objectives of the Council as linked to the adopted Management Plan and City Plan.

Loans

In considering the need for new loans, the following criteria will be analysed:

- Loans will only be used as a last resort to finance expenditure.
- Any proposed borrowing amounts must be contained in the Management Plan.
- Current and estimated future revenues. Generally loans should only be raised for income producing products.

- Strategic planning for the future of the Council covering short, medium and long term.
- Inter-generational equity considerations in terms of the 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 service costs.
- Ensure where possible that the structure of the borrowing is appropriate for the nature of the assets being funded
- Any other strategic imperative that is linked to revenue and expenditure capacities.

Term of Loans

All new loans raised will generally be matched to the life of the asset but not be drawn down for a period in excess of 20 years.

Borrowing Redemption

When surplus funds exist, the decision to repay borrowings shall be made based on the facts available at the time giving due regard to minimising the overall cost to the organisation.

Loans will only be paid out early if there is significant financial benefit to Council.

Debt Service Ratio – Financial Sustainability

The Debt Service Ratio (DSR) is the measure of level of debt servicing costs as a percentage of total revenue from ordinary activities. The DSR indicates the ability to service debt and the risk associated with debt and interest commitments.

The LGMA Financial Health Checks suggest that developed Councils should ideally maintain a DSR ratio less than 10%.

At the time of preparation of this policy (March 2008) Randwick City Council had no outstanding borrowings and had a Debt Service Ratio of Nil.

Internal Borrowings – Externally Restricted Funds

Internal loans from externally restricted funds do not need to be included in the DLG's "requested borrowing" return. Internal loans from externally restricted funds must have Ministerial approval before the internal loan can be drawn. Section 410(3) 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.

Internal Borrowings – Internally Restricted Funds

The use of internally restricted funds is not considered to be an internal loan by the DLG. The use of internally restricted cash for a purpose that is different from its original purpose means rescission of a previous Council resolution. Section 372 states the process that must be followed in rescinding a resolution of Council.

Overdraft

Council has an overdraft facility established with the Commonwealth Bank.

The overdraft facility is only used for short term unavoidable and essential cash flow purposes only.

Financial Operations staff will generally avoid the use of the overdraft facility via careful cash management practices that ensure sufficient funds are available to fund daily expenditure requirements.

Policy Variation

Council reserves the right to vary the terms and conditions of this policy.

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