
L90. Loan Borrowing and Overdraft Policy

Title: Loan Borrowing and Overdraft Policy

Policy No: L90

Keywords: Loans, Borrowing, Debt Service Ratio

Responsible Officer: Executive Manager, Corporate Services
Officer:

1. PURPOSE AND AUTHORITY

The broad objective of this policy is to make policy-based provision with respect to Council borrowings, so as to ensure that all such borrowings are strictly in accordance with the relevantly applicable legislative provisions.

2. POLICY STATEMENT

Manly Council will borrow funds in strict accordance with applicable legislative provisions and the principles set out in this policy.

3. PRINCIPLES

Philosophy

The underlying principles of this policy are as follows:

- the need for lawfulness, that is, the need to ensure that all Council borrowings are strictly in accordance with the relevant legislative provisions;
- the need for prudence, that is, the need to minimise the cost of borrowings; and

the commitment to best practice, that is, the need to meet industry best practice in respect to the organisation's Debt Service Ratio.**Definition**

Borrowings are funds that Council may obtain from external and internal sources, either by overdraft or loan or by any other mean 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 Division of Local Government "requested borrowing" return detailing the projects to be funded for any borrowings.

Link to Community Strategic Plan

Any borrowings shall be considered as a mechanism to assist in achieving the strategic objectives of the Council as linked to the adopted Community Strategic 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 capital.
- Any proposed borrowing amount must be included in the Council's Revenue Policy.
- Current and estimated future revenues. Generally loans should only be raised for the acquisition or construction of capital assets.
- Strategic planning for the future of the Council covering short, medium and long term.

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- Inter-generational equity considerations in terms of the ratepayers who benefit from the expenditure and therefore on a user pays 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 asset being funded
 - Any other strategic imperative that is linked to revenue and expenditure capacities.

Loan Terms

The repayment period of a loan should not exceed the useful life of the asset being created, but in all cases shall not be 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.

A key indicator for measuring the sustainability of local councils provides for a DSR of less than 10%

Internal Borrowings – Externally Restricted Funds

Internal loans from externally restricted funds do not need to be included in the DLG's "requested borrowing" return. However, 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 requires a 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.

4. SCOPE

This policy applies to all Council officials (including Councillors and Council staff and consultants engaged by Council) who are involved, directly or indirectly, in decision-making (including preparatory and recommendatory decision-making) with respect to the subject-matter of this policy.

5. DEFINITIONS

See the Dictionary at the end of the Local Government Act 1993 for definitions of various terms and expressions used in this policy.

6. IMPLEMENTATION

This policy will be implemented without delay once adopted by Council. Upon adoption this policy will be entered into Council's policy register, made available online and provided to all staff and any other people directly affected by this policy.

Council and/or the General Manager may, during a civil emergency only, set aside any policy terms to ensure public safety.

7. MONITORING AND BREACHES

Regular monitoring of compliance with this policy, relevant legislation and Manly policies and procedures will be undertaken and documented by the responsible officer for this policy.

Breaches of this policy are considered to be breaches of Manly Council's Code of Conduct and therefore invoke the relevant sanctions outlined in that Code. Persons in breach of any legislation may be subject to relevant criminal action.

8. REPORTING

No specific reporting is required by this policy.

9. POLICY REVIEW

This Policy is subject to regular review at a maximum interval of 2 years or as required by legislation.

For the purposes of carrying out and giving effect to this policy, the General Manager may from time to time prepare, adopt or vary, and otherwise issue to Council staff, guidelines and directions relating to any aspect of this policy.

Any recognised change to relevant legislation; or directives or guidelines issued by agencies including the NSW Ombudsman and the Division of Local Government; or to Manly Council's related guidelines and procedures will activate an immediate review of this policy to ensure it remains current and aligned to best practice policies.

10. RELEVANT REFERENCES AND LEGISLATION

Local Government Act 1993

Local Government (General) Regulation 2005

DLG Circular 09/21 - Revised Borrowing Order – NSW Minister for Local Government.

11. RELEVANT COUNCIL POLICIES

Nil.

12. REVISION SCHEDULE

Minute No	Date of Issue	Action	Author	Checked by
n/a	28 April 2011	Reviewed.	Manager Financial Services	DGM-PPI
PS 52/11	2 May 2011	Planning and Strategy Committee resolved to place Policy on exhibition.	Manager Financial Services	DGM-PPI
OM 130/11	18 July 2011	OM resolved to Adopt the Policy.	OM Corporate Services	Manager Administration
	June 2013	Comprehensive Review		General Counsel
PS16/14	3 March 2014	Periodic Review	OM CSS	Manager Governance