



### **1. Intent**

Oberon Council Borrowing policy is designed to:

- 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
- Meet the Debt Service Cover Ratio industry benchmark (set by the Office of Local Government, OLG)

The voting of money for expenditure on its works, services or operations (which includes transfers of funds to or from reserves) is a matter that Council is not permitted to delegate (section 377 Local Government Act, 1993).

Council may, with Ministerial approval, borrow funds by way of internal loan from externally restricted reserves, such as the sewer or water reserve, pursuant to section 410 of the Local Government Act, 1993.

### **2. Scope**

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

### **3. Guidelines**

All borrowings must:

- Be contained in Council's Long Term Financial Plan, Delivery Program and Operational Plan
- Be for assets – capital expenditure, where the borrowing cost is spread over the life of the asset
- Not result in the Debt Service Ratio falling below the benchmarks set by OLG
- Consider current and future funding needs for both operating and capital purposes
- Not be made for a term of greater than 20 years or life of the asset
- Consider inter-generational equity in terms of who benefits from the expenditure should pay for the costs associated with the expenditure

Borrowing priorities:

- Current and estimated future revenues. Income producing and cost saving initiatives will be given the highest priority
- Non-income generating assets will be considered if the project can demonstrate the borrowing is affordable and the benefits exceed the costs

### **3.1 External Loans**

External Loans enable Council to complete significant works which are unable to be funded internally.

A minimum of three lending institutions will be contacted for total borrowing costs over the term of the loan and the most competitive option selected. Council will only look at the following institutions for external loans:

- the four major Australian banks
- the State Government borrowing facility, managed by NSW Treasury Corporation (TCorp)
- other lending institutions as resolved by Council

External loans shall:

- be made on a fixed interest credit foncier basis unless otherwise determined by Council resolution
- not be made for a term of greater than 20 years or life of the asset
- be documented by resolution of the Council
- be accounted for within Council's general ledger

### **3.2 Internal Loans**

Internal Loans allow Council to utilise funding from cash reserves to finance activities for which there would otherwise be a need for borrowings from a third party. Internal loans allow Council to maintain a certain level of flexibility and affordability to respond to unexpected and forecasted funding requirements.

New internal loans shall be made by Council resolution, the recommendation for which shall set out the purpose of the loan and the principal amount, the term of the loan and the interest rate applicable.

Repayments of internal loans shall require only the general authorisation contained in the adoption of Council's Operational Plan.

3.2.1 Internal loans from external reserves shall:

- be documented by resolution of the Council
- be applied for under section 410 of the Local Government Act, 1993 to receive Ministerial Approval
- be made only from current available Council reserves and only to the extent that cash funds are available within external reserves at the time of making the loan and aren't needed to meet future requirements within the Long-Term Financial Plan
- not be made for the purposes of sewerage fund, water fund, or domestic waste management operations and projects
- be made on a fixed interest credit foncier basis unless otherwise determined by Council resolution
- be made at an interest rate that is the current Reserve Bank of Australia (RBA) cash rate at time of inception
- not be made for a term of greater than 10 years of life of the asset
- be accounted for within Council's general ledger

3.2.2 Internal loans from internal reserves shall:

- be made only from current available Council reserves and only to the extent that cash funds are available within the internal reserves at the time of making the loan and aren't

- needed to meet future requirements within the Long-Term Financial Plan
- be of a temporary nature (less than six months)
- require a resolution from Council where the purpose is different from its original purpose

### 3.3 Overdraft

Council has an overdraft facility established with its financial institution.

While Council's finance staff will work to prevent the use of the overdraft facility, only to be used to provide cash to cover unavoidable short-term cash shortfalls.

## 4. Implementation

### ***General Manager Delegation***

Authority for implementation of the Internal Loan Borrowing Policy is delegated by Council to the General Manager in accordance with the Local Government Act 1993.

Requirements		Responsibility
4.1	<b>Staff</b> Under supervision of the Responsible Accounting Officer council staff will be responsible for ensuring that policies are implemented appropriately within their work area.	Director Corporate Services CFO Management Accountant
4.2	<b>Complaints and requests</b> Complaints and requests received regarding the Borrowings Policy will be recorded on Council's Records Database and handled in accordance with Councils Handling Complaints Policy 2101.	Council officers Public Officer
4.3	<b>Consultation</b> At least every four years, arrange comprehensive review of Council's policy and borrowing activity by an appropriately qualified (e.g. ARIC) adviser.	Director Corporate Services Audit, Risk and Improvement Committee (ARIC)

## 5. Review

This policy will be comprehensively reviewed every 4 years, by an appropriately qualified adviser. However, council is to perform a yearly review to address any impending impacts as a result of any changes in the financial market.

It may also be reviewed and updated as necessary if legislation requires it; or when Council's related policies, functions, structure or activities change; or when technological advances or new systems change the way that Council manages internal loans.

The policy may be revoked at the expiration of twelve months after the declaration of the poll for the next general NSW local government election unless Council updates or revokes it sooner.

## 6. Governance

This policy should be read in conjunction with any related legislation, codes of practice, relevant internal policies, and guidelines.

*Related legislation and policies*

<b>Name</b>	<b>Link</b>
Local Government Act 1993	<a href="http://www.austlii.edu.au/au/legis/nsw/consol_act/lga1993182">www.austlii.edu.au/au/legis/nsw/consol_act/lga1993182</a>
Local Government (General) Regulations 2021	<a href="https://legislation.nsw.gov.au/view/html/inforce/current/sl-2021-0460">https://legislation.nsw.gov.au/view/html/inforce/current/sl-2021-0460</a>
OLG Code of Accounting Practice and Financial Reporting 2009	<a href="https://www.olg.nsw.gov.au/councils/council-finances/financial-reporting/local-government-code-of-accounting-practice-and-financialreporting/">https://www.olg.nsw.gov.au/councils/council-finances/financial-reporting/local-government-code-of-accounting-practice-and-financialreporting/</a>

*Related external references*

<b>Name</b>	<b>Link</b>
Office of Local Government (OLG)	<a href="http://www.olg.nsw.gov.au/">www.olg.nsw.gov.au/</a>

*Definitions*

<b>Term</b>	<b>Definition</b>
Current cash rate	Means the cash rate as set by the Reserve Bank of Australia (RBA)
Credit foncier loan	Means a loan to be repaid by equal instalments covering both principal and interest
Internal loans reserve	Means the reserve fund established for the purposes of Council's internal loan scheme
Debt Service Cover Ratio	The measure of the ability to cover its debt servicing costs, expressed as the number of times operating cash covers its repayment
Borrowing costs	Interest and other costs that an entity incurs in connection with the borrowing of funds
Overdraft facility	A flexible line of credit providing access to funds to manage the day-to-day cash flow needs of an organisation

Approving Authority	Oberon Council
Contact	Chief Financial Officer
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