



Burwood Council

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LOAN BORROWING AND OVERDRAFT POLICY

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Purpose

The purpose of the Loan Borrowing and Overdraft Policy is to:

- fund infrastructure and other specific capital projects
- 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 industry best practice standard in respect of an organisation's Debt Service Ratio being greater than zero per cent and less than 20 per cent

Legislation

Council may borrow at any time for any purpose allowed under the *Local Government Act 1993* Sections 621 - 624. Councils are required to advise the Chief Executive, Office of Local Government (OLG) of amounts borrowed in accordance with the regulations (Clause 230 of the *Local Government (General) Regulations 2005*).

Reporting

Council is required to complete the OLG "requested borrowing" return detailing projects to be funded for any borrowings for the following financial year. These returns are issued by the OLG on an annual basis.

Types of Borrowings

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 for Local Government.

Specifically:

External Restricted Funds

Internal loans from externally restricted funds do not need to be included in the OLG'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) of the *Local Government Act 1993* 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 Restricted Funds

The use of internally restricted funds is not considered to be an internal loan by the OLG. The use of internally restricted cash for a purpose that is different from its original purpose requires a rescission of a previous Council resolution (*Local Government Act 1993* Section 372 that states the process that must be followed in rescinding or altering a resolution of Council).

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Financial Institutions to Borrow from

As prescribed in the Local Government Borrowing Order "Council shall not borrow from any source

outside the Commonwealth of Australia nor in any currency other than Australian Currency”.

Council will invite Australian “Authorised Deposit Taking Institutions (Including T-Corp) to submit written quotations on Council’s borrowing requirements.

Criteria for assessing the need for a loan

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

- Council will not borrow money to fund operating expenditure. This type of expenditure should be funded through operating revenue streams.
- Loans will only be used to finance capital projects if council’s internal reserves cannot accommodate the required capital commitment.
- Any proposed borrowing amount must be included in Council’s Operational Plan and Revenue Policy.
- All borrowings will be considered in line with Council’s Long Term Financial Plan and Burwood Council’s 2030 Community Strategic Plan.
- The impact on inter-generational equity in terms of the ratepayers who benefit from the expenditure versus those who pay for the costs associated with such expenditure.
- Potential movements in interest rates and associated debt servicing costs.
- 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 or 20 years, whichever is the less.

Proceeds of Loan Borrowing

The proceeds of any loan borrowing will only be utilised to fund the following:

- land acquisitions
- asset acquisitions for strategic property holding
- new assets constructed, eg roads, sports/aquatic centres, sporting fields etc
- an asset replacement, eg road reconstruction
- an asset upgrade, eg footpath widening
- a specific and significant one time asset renewal, ie replacement or refurbishment of a significant asset or components there of

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 a significant financial benefit to Council.

Debt Service Ratio – Financial Sustainability

Debt Service Ratio (DSR) is the measure of the 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 (DSR) of greater than zero per cent and less than 20 per cent is recommended by the Office of Local Government.

Overdraft

Council has an overdraft facility established which is reviewed on an annual basis.

The overdraft facility is only used for short term unavoidable and essential cash flow purposes. The use of the overdraft facility is to be jointly approved by the General Manager and Chief Finance Officer.

Related Information/Glossary

- *Local Government Act 1993*
- *Local Government (General) Regulations 2005 (NSW)*
- Minister for Local Government Borrowing Order
- Burwood Council Revenue Policy

Policy Review

To be reviewed every four years or as required in the event of legislative changes.

Contact

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