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## REVISED BORROWING ORDER

The Minister for Local Government has issued a revised Borrowing Order pursuant to section 624 of the *Local Government Act 1993*. The revised Order replaces the Order dated 27 September 1993.

The revised Order, which is attached to this circular, retains the limitation on councils to borrow only in Australia and in Australian currency. All other limitations or restrictions have been removed.

Nothing in this revised Order affects any borrowings made before the date of the new Order, which was made in compliance with the previous Ministerial Order dated 27 September 1993. Such borrowings are taken to be in compliance with this Order.

Councils are reminded that under their Charter they are to have regard to the long term and cumulative effects of their decisions. Accordingly, councils must exercise reasonable care and diligence that a prudent person would exercise when borrowing funds. The borrowing of money is not a function that council can delegate. It is expected that councillors would have a full understanding of the terms and conditions of borrowing arrangements before entering into any contract.



**Ross Woodward**  
**Acting Director General**

## Attachment B

### **Local Government Act 1993 – Borrowing Order** (Related to borrowings by Council)

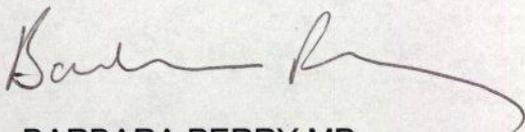
I, BARBARA PERRY MP, Minister for Local Government, in pursuance of section 624 of the Local Government Act 1993, hereby impose restrictions on borrowings by a council as follows:

A council shall not borrow from any source outside the Commonwealth of Australia nor in any other currency other than Australian currency.

#### Transitional Arrangements

Nothing in this Order affects any borrowings made before the date of this Order, which was made in compliance with the previous Ministerial Order dated 27 September 1993, and such borrowings are taken to be in compliance with this Order.

Dated this 13<sup>th</sup> day of May 2009



BARBARA PERRY MP  
Minister for Local Government

## **Attachment C**

### **LOCAL GOVERNMENT ACT 1993 - SECT 410(3)**

#### **Alternative use of money raised by special rates or charges**

#### **410(3) Alternative use of money raised by special rates or charges**

1. This section applies to money that has been received by a council as a result of the levying of a special rate or a charge.
2. If the special rate or charge has been discontinued and the purpose for which the money was received has been achieved, or is no longer required to be achieved, any remaining money may be used by the council for any other purpose if, and only if:
  - (a) a proposal to that effect has been included in a draft operational plan for the current year or for a previous year, and
  - (b) notice of the fact that the proposal was included in the operational plan adopted by the council for that year has been published in a manner that the council is satisfied is likely to bring the notice to the attention of members of the public in the area.
3. 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.
4. In granting such an approval, the Minister must impose conditions as to the time within which the internal loan must be repaid and as to any additional amount, in the nature of interest, that is to be paid in connection with that loan.

# BORROWING STRATEGY

## Objective

To ensure Penrith City Council uses responsible financial practices in the management of both existing and future borrowings. This will involve utilising sound financial management principles and ensuring net cost of borrowings is minimised so that Council's debt level is;

- a) maintained within expectations
- b) within acceptable sustainability targets
- c) complies fully with relevant legislative provisions, and;
- d) reflects Council's Long Term Financial Plan (LTFP).

Where operating performance surpluses are projected to be sustained over the long term, then additional borrowings may be considered viable for specific purposes only if Council will have sufficient capacity to accommodate the additional cost of servicing those borrowings. In its annual planning and budgeting cycle, based on a minimum four-year timeframe, Council will consider the long term viability of new borrowings. Council may use internal reserves and surplus funds to minimise existing or future loan liabilities. Financial decision making will take into account asset renewal needs and service level preferences.

All borrowings must be within Councils Loan Borrowing Policy and be compliant with Sections 621 to 624 of the Local Government Act 1993 and any orders by the Minister for Local Government.

## Principles

To ensure Council manages the cost of borrowings responsibly, taking into account its financial capacity, the Borrowing Strategy sets out a number of guiding principles. These principles will be reflected in the Delivery program and include:

1. **Minimise future loan borrowings** unless:
  - a. Cost of the debt is funded from sufficient income or cost savings generated by the project, or
  - b. Financially responsible subsidised loan funding is available e.g. Local Infrastructure Renewal Scheme (LIRS).
2. Borrowings are for **major infrastructure projects** only and are based on well-developed and financially sustainable strategic, asset management and long term financial plans. Any proposed new borrowing must be supported by a **comprehensive business case** including known capital funding requirements, future operational costs of maintenance, renewal, and loan repayments of any infrastructure and should only fund the specific project or purpose approved.
3. Ensure borrowings support the principles of **inter-generational equity** where the benefits of any capital project are shared by future generations.
4. Any proposed new borrowings will be in **accordance with Councils Loan Borrowing Policy, legislative requirements** and guidelines.
5. The period of repayment of debt finance will **not exceed the period over which the benefits are received** from a project or the life of the asset – whichever is lesser.
6. The debt service ratio will **not exceed benchmarks**.

## Strategy

This strategy sets out a number of additional actions to supplement the actions already in place and adopted by Council. Such practices ensure that Council is exercising sound governance and prudent financial management.

Overall, the purpose of the actions within this Borrowings Strategy is to ensure Council keeps its borrowings as low as possible, relative to what is required to provide affordable, preferred service levels on an ongoing basis.

The amount of borrowings appropriate for Council, at any one time, depends on:

1. Its community's needs for services
2. External funding Sources available
3. Existing and projected future level of operating costs relative to revenue
4. Council's capacity to raise additional revenue if required.

Council will use its long-term financial plan, which is based on sound financial management principles, to make decisions about affordable and appropriate levels of debt. Interest rate risk exposure will be managed through reviews of the borrowings portfolio and based on market conditions.

Wherever possible, use should be made of subsidised loan borrowings or government lending schemes. Such funding sources include NSW Treasury Corporation (TCorp), a financing arm of the NSW Government. Council may also seek independent financial advice in relation to borrowings, or the strategies behind these borrowings.

Council may use internal reserves and surplus funds to minimise existing or future loan liabilities. The basis of this is that interest rates on borrowings are, on average, higher than the interest income rates earned on cash investments.

## Performance Indicators

Borrowings will always remain within the Office of Local Government's Debt Service Ratio. The Debt Service Ratio (DSR), together with the Debt Service Coverage ratio, provide a measure of the level of debt servicing costs (interest and principal repayments) as a percentage of total continuing operating revenue (excluding grants and contributions). The DSR indicates the amount of general income that is used to repay debt and interest charges and also the ability of a council to service debt.

1. Council's borrowings have always been, and remain, within the Local Government Debt Service Ratio benchmark of greater than 0% and less than 20%.
2. Council's benchmark for the Debt Service Cover Ratio will be at least 2 times.