



Policy Owner: Director Corporate Services

Direction: 5. Our Civic Leadership

1. STATEMENT OF INTENT

- 1.1 This Policy details the parameters under which the external borrowing activities of North Sydney Council shall be managed. It provides the policy framework for Council's borrowing activities and defines key responsibilities and the operating parameters within which borrowing and related risk management activities are to be carried out.
- 1.2 Council operates under the basic premise that it is a risk averse entity and therefore does not wish to incur unnecessary risks from its borrowing activities and shall thus ensure that any transactional activity is not speculative in nature.

2. ELIGIBILITY

- 2.1 This Policy applies to all Council staff, Councillors and contractors working on behalf of Council and applies to all new borrowings as well as existing loans.
- 2.2 Council shall not borrow from any source outside the Commonwealth of Australia nor in any currency other than Australian currency as prescribed in the Ministers Borrowing Order, section 624 of the *Local Government Act 1993*.

3. DEFINITIONS

- 3.1 Floating Rate Debt - An interest rate that is designed to move up/down at a margin correlated to the underlying index/benchmark.
- 3.2 Fixed Rate Debt - debt with an interest rate that does not change. The advantage of fixed rate debt is that the borrower is shielded from future increases in interest rates and assists in providing certainty around projected/budgeted interest expense over various economic cycles.

4. PROVISIONS

4.1 Objectives

The primary objectives of Council's borrowing activities, consistent with market best practice and requirements contained in Council's *Long Term Financial Plan* and the *Community Strategic Plan*, are as follows:

- a) safeguard Council's financial resources by establishing and regularly reviewing treasury credit limits and then managing financial market exposures within these limits;
- b) control Council's cost of borrowing through the effective management of its interest rate risk, within set interest rate risk management limits;
- c) ensure Council's continued ability to meet its debts in an orderly manner as and when they fall due in both the short and long term, through appropriate liquidity and funding risk management;
- d) maintain adequate internal controls to mitigate operational risks;
- e) arrange appropriate funding facilities for Council from the banking sector, ensuring they are at market related margins;
- f) manage the spread of debt maturities within set funding risk limits;
- g) maintain lender relationships and Council's general borrowing profile in the local debt market, so that Council is in the position to take advantage of 'windows of opportunity' as and when they arise;
- h) ensure compliance with any internal and external financing/borrowing covenants and ratios;
- i) monitor, analyse, interpret and report local and international economic and financial market trends to senior management and Councillors in relation to the impact of such changes and trends on Council's borrowing activities; and
- j) produce accurate and timely information that can be relied on by senior management and Councillors for control and exposure monitoring purposes.

4.2 Borrowing Principals

Loan borrowings are not a form of revenue and do not replace the need for Council to generate sufficient operating revenue to service its operating requirements. Borrowing will be undertaken in line with the following principles:

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- a) that loan funds are a resource to fund the replacement and upgrading of existing infrastructure and fund the creation of new infrastructure. These loan funds will be limited:
 - to the acquisition or enhancement of income producing assets;
 - to the construction and/or upgrading of buildings;
 - to infrastructure assets that have a life expectancy of greater than 10 years.
 - b) that the capital cost of infrastructure be recognised over the period during which the benefits will be enjoyed; and
 - c) that loan borrowings will not exceed a 'net debt service ratio' of 5%.

Council's borrowing activities are funded from bank sourced debt which can incorporate committed term funding facilities and an overdraft facility or from the New South Wales Treasurer (TCorp) under the *Government Sector Finance Act 2018*.

Borrowings shall be obtained from an authorised deposit taking institution (ADI) licensed by the Australian Prudential Regulation Authority (APRA), which have a minimum Standard and Poor's (S&P) long term credit rating of 'A+' (or the Moody's Investor Services or Fitch Ratings equivalents).

When negotiating borrowings, Council must obtain written quotations from the four major banks and TCorp. The quotations must include the:

- a) interest rate;
- b) term of the loan;
- c) repayment schedule;
- d) repayment amount (whether principal and interest or interest only); and
- e) any applicable fees or penalties.

4.3 Risk Management

Liquidity risk management has the objective of ensuring that adequate funding sources are always available to meet both the short- and long-term commitments of Council, as they arise, in an orderly manner. Appropriate cash flow reporting mechanisms will be maintained to monitor Council's estimated liquidity position.

Council's short term liquidity cash management will be managed by aiming to have access to funds, either through cash reserves or committed but undrawn loan or overdraft facilities.

Funding risk management centres on the ability to re-finance or raise new debt within a pricing structure that is appropriate for Council's credit standing. A key factor of funding risk management is to reduce the concentration of risk at any one point in time so that if one-off internal or external negative credit events occur, the overall interest cost is not unnecessarily increased for a material portion of outstanding debt.

Interest rate risk management has the objective of controlling Council's exposure to movements in interest rates to:

- a) manage the total interest expense incurred by Council's debt;
- b) manage variations in interest expense for the debt portfolio from year to year; and
- c) recognise Council's exposure to the local and international economies and maintain sufficient flexibility in its interest rate risk management profile to enable Council to take advantage of favourable interest rate movements and protect against unfavourable movements.

Council may use the following interest rate risk management instruments to manage bank sourced debt:

- a) floating rate debt; or
- b) fixed rate debt.

4.4 Internal Processes and Controls

It is necessary to manage the internal risk arising from treasury activities to prevent unauthorised activities and financial loss. Internal risk is to be contained by a system of processes and controls designed to limit the potential impact of any risk situation. Council will utilise both organisational and procedural controls within the treasury function. Organisational controls enforce the segregation of duties and procedural controls relate to the flow of activities within the treasury function.

The key internal processes and control limits, which should be included within the internal control systems, are:

- a) a clear definition of the roles, responsibilities and authority levels for staff employed in the treasury process, including adequate systems and controls and staff training;
- b) adequate segregation of duties among staff to minimise the risk of error or fraud and enhance the detection there of;
- c) compliance monitoring and reporting; and
- d) an annual internal review of treasury operations.

5. RESPONSIBILITY/ACCOUNTABILITY

- 5.1 Councillors are responsible for:
- a) adopting this Policy, including any amendments proposed;
 - b) approving any interest rate risk management activities outside the parameters of this Policy;
 - c) approving all funding facilities including any facilities outside the parameters of this Policy;
 - d) approving the cancellation in whole or in part of any funding facilities;
 - e) approving the use of any risk management products not authorised by this Policy;
 - f) monitoring the borrowing activities of Council through the receipt of appropriate reporting; and
 - g) approving overall borrowing limits on an annual basis.
- 5.2 The Director Corporate Services is responsible for overseeing Council's borrowing and associated interest rate risk management activities; monitoring the occurrence of new risk situations; and if existing processes and controls do not provide adequate safeguards, implementing appropriate additional preventative safeguards and checking external counterparty confirmation for all borrowing and associated interest rate risk management transactions against records generated internally.
- 5.3 The Director Corporate Services is also responsible for conducting an annual internal review of Council's treasury operations.
- 5.4 The Manager Financial Services (Responsible Accounting Officer) is responsible for:
- a) ensuring compliance with the objectives and principals of this Policy.
 - b) managing the loan funds lender relationships, providing financial information and negotiating new/amended borrowing facilities or methods;
 - c) formulating interest rate risk management strategies and obtaining Director Corporate Services approval.
 - d) executing all borrowing and associated interest rate risk management transactions;
 - e) ensuring compliance with all internal borrowing ratios and external banking covenants;
 - f) assisting the Director Corporate Services with the annual review of the internal processes and controls of Council's treasury function; and
 - g) lodging annual 'Proposed Borrowing Return' with the Office of Local Government, Department of Planning, Industry and Environment,

detailing borrowings required for the following financial year and the projects for which the funds are sought.

- 5.5 The Manager Financial Services will prepare a monthly reconciliation of all Council borrowings and a report be presented to Council on the status of the approved borrowings.
- 5.6 The Manager Accounting Services will, in the absence of the Manager Financial Services, undertake his/her duties under a delegated authority and will assist with the preparation of the monthly report.
- 5.7 This Policy will be reviewed annually, or when an amendment to the Policy is deemed necessary due to a change in legislation passed by either State or Federal Government, Council’s internal operating activities and/or overall conditions in the debt markets. Any amendment to this Policy must be by Council resolution.
- 5.8 This Policy will be referred annually to Council’s Audit, Risk and Improvement Committee for the review of controls and procedures.

6. RELATED POLICIES/DOCUMENTS/LEGISLATION

The Policy should be read in conjunction with the following Council policies and documents:

- Asset Management Policy
- Enterprise Risk Management Policy
- Financial Management Policy
- Open Government Policy
- Long Term Financial Plan within the Resourcing Strategy

The Policy should be read in conjunction with the following documents/legislation:

- Local Government Act 1993
- Local Government (General) Regulation 2005
- Borrowing Order pursuant to Section 624 of the Local Government Act 1993
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards

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