



## DIRECTOR CORPORATE SERVICES REPORT

14<sup>th</sup> June 2005

<b>DCS7</b>	<b>2004 / 05 LOAN BORROWING PROGRAM</b>
	<b>FILE: * APV</b>

### SUMMARY:

Reporting on the proposal to borrow \$728,000 for Environmental Works and \$1,000,000 for Water Fund projects.



The Local Government Act requires that the borrowing of monies is a function that Council must determine and cannot delegate.

The Department of Local Government has approved that Council may borrow \$3,660,500 in the 2004 / 05 year made up as follows:

General Fund (including Environmental Works)	\$1,860,500
Waste Management – Recycling	\$ 500,000
Water Fund	\$1,000,000
Sewer Fund	\$ 300,000

### Water Fund Loan Approval

The loan program provides funding towards the construction of the SWR Water Treatment Plant. Council has awarded a tender to John Thompson Engineering Pty Ltd in the sum of \$3.7 million, to date cost of \$372,791 have been incurred.

A loan of \$1,000,000 will be raised in the current year.

### Sewer Fund Loan Approval

The original approval provided for \$300,000 for the Jerseyville Sewerage Scheme, these funds were in fact taken up in the 2003 / 04-year. No borrowings are proposed in the 2004 / 05-year.

### Recycling Service

Provision was made to borrow \$500,000 to facilitate the commencement of the service in the 2005 / 06-year. The project

has now been deferred and therefore no loan borrowing is required at the present time.

## **General Fund**

It is proposed to borrow \$728,000 for works programmed under the Environmental Levy.

In respect of the General Fund loan program, a number of loan funded projects were deferred by Council at its meeting of the 24 August 2004 whilst cash flow projections in respect of a number of other projects do not support the need to raise additional loan funds prior to the 30 June 2005.

Council proposes incorporating \$563,000 within its 2005 / 06-loan approval in respect of works deferred in the current year.

## **Loan Offers**

Council enquiries during the previous financial year confirmed that the major banks continue to provide the optimum borrowing rates to Local Government, and that the second tier institutions are not competitive. The advantage that the banking institutions enjoy is attributed to the size of their portfolios, the lower risk ratio applicable to local government borrowings, and the regulatory capital adequacy requirement's applicable to these institutions which make lending to local government attractive to the banks.

Council approached major lending authorities requesting quotes in respect of the above borrowing, the following quotes for the loans totaling \$1,728,000 have been provided:

### Commonwealth Bank

Term	10 years, quarterly repayment	\$728,000 General Fund
Rate	6.03%	
Term	10 years, quarterly repayment	\$1,000,000 Water Fund
Rate	6.0%	

Quote Valid to: 6 June 2005 12 noon

### National Australia Bank

Term	10 years, quarterly repayment
Rate	6.053%

Quote Valid to: 14 June 2005

### IMB Banking & Financial Services

Term	10 years, quarterly repayment
Rate	10-year swap rate plus a margin of 70bps (6.91%)

Quote Valid to: Indicative only

### St George

Term 10 years, quarterly repayment  
Rate 6.51%  
Quote Valid to 30 May 2005

Updated rates will be available to Council at its meeting of 14 June 2005 to enable determination of the successful lender.

## REPORT IMPLICATIONS:

- *Environmental*

*Nil*

- *Social*

*Nil*

- *Financial*

*The borrowings are in accordance with Council's Budget and will create a liability of \$728,000 in General Fund and \$1,000,000 in Water Fund.*

*The annual loan repayments will be approximately \$97,473 and \$133,708 in the General and Water Funds respectively, whilst the debt service ratio will be impacted by approximately .49% in General Fund and 2.3% in the Water Fund.*

*The loan repayments within the General Fund will be met by the proceeds from the Environmental Levy.*

- *Policy or Statutory*

*Nil*

- *Director's Review*

*Updated borrowing rates will be provided at the Council meeting.*

## RECOMMENDATION

1. That Council resolve to accept the offer of a General Fund loan of \$728,000 and a Sewer Fund loan of \$1,000,000 based upon a ten year fixed term quarterly installments from the financial institution offering the lowest interest rate.
2. That the seal of Council is affixed to the necessary loan documents.

.....  
**G B Snape**

**DIRECTOR CORPORATE SERVICES**