



KEMPSEY
Shire Council

DIRECTOR CORPORATE SERVICES REPORT

14th February 2006

DCS9	2005 / 06 LOAN BORROWING PROGRAM
	FILE: 633 APC

SUMMARY:

Reporting on the proposal to borrow \$2,474,000 for General Fund and \$700,000 for Water Fund projects.



DESCRIPTION:

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 \$4,374,667 in the 2005 / 06 year made up as follows:

General Fund (including Environmental Works)	\$2,274,667
Waste Management – Recycling	\$ 200,000
Water Fund	\$ 700,000
Sewer Fund	\$1,200,000

Water Fund Loan Approval

The loan program provides funding towards the construction of the SWR Water Treatment Plant. To date costs of \$3,163,734 have been incurred.

A loan of \$700,000 will be raised in the current year.

Sewer Fund Loan Approval

The original approval provided for \$1,200,000 for the Greenhill / Aldavilla Sewerage Scheme, it is proposed to borrow these funds in June 2006.

General Fund

The approved program for 2005 / 06 of \$2,474,667 incorporates \$563,000 carried forward from the 2004 / 05 year together with \$128,333 for works under Council's Environmental Levy Program.

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 have been received:

National Australia Bank

Term 10 years, quarterly repayment
Rate 6.025%
Quote Valid to: 10.2.2006

IMB Banking & Financial Services

Term 10 years, quarterly repayment
Rate 10-year swap rate plus a margin of 75bps (6.73%)
Quote Valid to: Indicative only

St George

Term 10 years, quarterly repayment
Rate 6.19%
Quote Valid to 2.6.2006

ANZ

Term 10 years, quarterly repayment
Rate 6.99% for general fund loan of \$2,474,000
 7.09% for water fund loan of \$700,000
Quote Valid to: Indicative only

Westpac Banking Corporation

Term 10 years, quarterly repayment
Rate 6.05%
Quote Valid to 29.2.2006

Commonwealth Bank

Term 10 year, quarterly repayment

Rate 6.04% for general fund loan of \$2,474,000
 6.15% for water fund loan of \$700,000
Quote Valid to: indicative only

Updated rates will be available to Council at its meeting of the 14 February 2006 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 \$2,474,000 in General Fund and \$700,000 in Water Fund.

The annual loan repayments will be approximately \$331,000 and \$94,000 in the General and Water Funds respectively, whilst the net effect upon the General Fund debt service ratio will be impacted by approximately 1.25 % and 0.95% in the Water Fund.

- *Policy or Statutory*

Nil

- *Director's Review*

Nil

RECOMMENDATION

1. That Council resolve to accept the offer of a General Fund loan of \$2,474,000 and a Water Fund loan of \$700,000 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