



# Loan Facilities Guidelines for Local Councils

September 2019

# Contents

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<b>1.</b>	<b>Introduction</b>	<b>3</b>
<b>2.</b>	<b>Permitted used of loans</b>	<b>3</b>
<b>3.</b>	<b>Loan options</b>	<b>3</b>
<b>4.</b>	<b>Timing for lodgement</b>	<b>4</b>
<b>5.</b>	<b>Security</b>	<b>4</b>
<b>6.</b>	<b>How to apply</b>	<b>4</b>
<b>7.</b>	<b>Assessment process</b>	<b>4</b>
<b>8.</b>	<b>Procedure following a decision</b>	<b>5</b>
<b>9.</b>	<b>Drawdown</b>	<b>5</b>
<b>10.</b>	<b>After drawdown</b>	<b>6</b>
<b>11.</b>	<b>Questions</b>	<b>6</b>

## 1. Introduction

NSW Treasury Corporation (TCorp) has been authorised by the NSW Government to provide loan facilities to general purpose local councils that have:

- been deemed 'Fit for the Future'; or
- been assessed as meeting the financial benchmarks set by the NSW Government; or
- submitted and had approved an improvement plan showing how they plan to meet the financial benchmarks set by the NSW Government.

These guidelines provide the policy framework and application procedures for local councils seeking a loan facility from TCorp.

## 2. Permitted used of loans

Loan facilities (minimum facility is \$1,000,000) are available for approved community infrastructure which form part of a council's annual capital expenditure programme, for example, roads, buildings, stormwater drainage, water and sewerage networks. This list is not exhaustive and councils are encouraged to contact TCorp's Local Government Services team if they are unsure whether assets planned for acquisition, upgrade or replacement will qualify.

Loan facilities will not be provided to:

- finance operating activities or recurring expenditure such as annual asset maintenance.
- establish or expand a council-run business in competition with existing privately-run businesses.
- acquire an existing privately-owned business.
- refinance existing privately financed debt, except at the scheduled maturity of existing loans where loans have not been fully amortised.

TCorp will provide a loan facility for up to 100% of the cost of an individual capital project providing the council's annual overall borrowing programme does not exceed 80% of its annual capital expenditure.

## 3. Loan options

Loan types available:

- **Amortising Loan** – Fixed rate and repayable by way of regular quarterly or semi-annual instalments to a maximum term of 20 years. Each instalment includes a component of principal together with interest expense for the period ending on the instalment payment date.
- **Principal at Maturity Loan** – Fixed rate (interest payable on a quarterly or semi-annual basis) and principal repayable at maturity to a maximum term of 10 years.

The minimum loan term across both options is three years.

Partial or full prepayment (must be for a minimum amount of \$1,000,000) is permitted but may incur break costs or generate gains. If the outstanding balance of the loan is less than \$1,000,000 before, or after the planned prepayment, the loan must be prepaid in full.

TCorp will quote an 'all up' interest rate being the interest rate payable by the council which includes TCorp's margin over its cost of funds.

Loan facilities from TCorp will not incur any application, establishment or ongoing fees.

## 4. Timing for lodgement

Councils are encouraged to submit their loan applications to TCorp during the first half of the financial year i.e. between 1 July and 31 December.

Approved amounts remaining undrawn by 30 June of the financial year during which the application for a loan facility was lodged, will be withdrawn. Councils wishing to carry forward undrawn amounts for access after this date will need to apply to TCorp by the end of the first week in June, or wait until the need arises and then lodge a new application.

## 5. Security

Loan facilities made available to councils by TCorp will fall under the Local Government Act 1993 No 30 section 623 and Local Government (General) Regulation 2005 – Reg. 229, and TCorp will be entitled to the security of a charge over the income of the borrowing council. The Loan Agreement makes reference to the existence of this charge.

## 6. How to apply

To apply, councils are required to complete the following two forms available on TCorp's website – [www.tcorp.nsw.gov.au/html/local\\_councils.cfm](http://www.tcorp.nsw.gov.au/html/local_councils.cfm):

- **Loan Facility Application Form**
- **Council Declaration Form**

Supporting documents required for TCorp's assessment are included as a checklist on the final page of the Loan Facility Application Form.

Scanned copies of the completed forms and supporting documents are to be submitted to [lgs@tcorp.nsw.gov.au](mailto:lgs@tcorp.nsw.gov.au).

## 7. Assessment process

TCorp will assess each application using standard credit criteria (including review of investments). The source documents for assessment will include:

- Audited financial statements for the last five years

- Current 10-year long term financial plan and capital expenditure programme
- Integrated planning and reporting documents
- Investment and debt policies
- Current investment report

## 8. Procedure following a decision

If the loan facility is approved, a **Letter of Offer** will be issued to council. Unless council has an existing relationship with TCorp, the covering letter will also call for the completion of a **New Account Form** and **Client Portal Access and Authority Form**. If Council agrees with the details of the offer, an authorised officer should sign the Letter of Offer within one month of issue and return the original to TCorp:

*NSW Treasury Corporation  
Level 7, Deutsche Bank Place  
126 Phillip Street  
Sydney NSW 2000*

Upon receipt of the executed Letter of Offer, TCorp will issue council with its **Loan Agreement**. The Loan Agreement will set out the terms and conditions under which TCorp provides the loan facility, with a schedule confirming the specific details of the loan to council. If council agrees with the terms and conditions set out in the Loan Agreement, authorised officers should sign the Loan Agreement and return the original to TCorp.

*If the loan facility is declined, because:*

- the request does not meet TCorp's policy, full details of the reasons will be provided to council.
- of concerns around council's financial position (e.g. serviceability of the debt) or issues with projected figures, TCorp will offer advisory assistance to help council improve its performance in these areas.

## 9. Drawdown

Council may contact TCorp to set a date for drawdown after return of the executed Loan Agreement, along with any other documentation requested by TCorp, which includes:

- an original copy of the signed **certificate** called for at 4.1.1 of the Loan Agreement (Schedule 2) – to be provided not more than 20 business days prior to drawdown.
- **certificates of currency** confirming council's general insurance and public liability insurance policies remain current
- council **minutes** approving the execution of the Loan Agreement

Following agreement of a drawdown date, council's authorised users are required to create a 'borrow' transaction on TCorp's Client Portal and confirm the instructions.

**Two business days prior to drawdown of the first advance or any subsequent advance**

The interest rate to apply to the advance for settlement will be struck two business days prior to the drawdown date. A confirmation note will be dispatched to nominated recipients shortly after the interest rate has been confirmed.

### **Drawdown Date**

Proceeds of the drawdown will be deposited into council's nominated bank account, or, if council so instructs via the returned Letter of Offer, into council's TCorpIM Cash Fund account.

## **10. After drawdown**

The executed Loan Agreement, TCorp's bank details and a loan repayment schedule will be provided to council within three business days of the drawdown date.

Under the terms of the Loan Agreement council will have agreed to certain undertakings, specifically:

- the obligation to notify TCorp if council becomes aware of the occurrence or potential occurrence of an event, referred to in the Loan Agreement as an 'Event of Default', or, the launch of any litigation against them which may have a material impact on council's ability to perform the undertakings.
- the prompt supply of council's latest audited financial statements and updated long term financial plan.

Throughout the life of the loan facility, TCorp will conduct an annual review of council's financial performance against a suite of financial covenants, as set out within the Loan Agreement.

## **11. Questions**

Council officers with any questions around the application process should contact TCorp's Local Government Services team on 02 9325 9251 or at [lgs@tcorp.nsw.gov.au](mailto:lgs@tcorp.nsw.gov.au).