

## **2.6: RE-FINANCING OF MATURING LOAN**

**Owner** : City of Albany  
**Responsible Officer(s)** : Acting Executive Director Corporate Services (P Wignall)

### **IN BRIEF**

- Approval is sought to re-finance Loan 22A which is due to mature on 29 June 2011.

### **2.6: RESPONSIBLE OFFICER RECOMMENDATION VOTING REQUIREMENT: ABSOLUTE MAJORITY**

**THAT Council approve the re-financing of Loan 22A with a loan term of one year.**

### **BACKGROUND**

1. Loan 22 (for the amount of \$1,500,000) was taken out in June 2003 for the purpose of funding road works. The Loan matured in June 2010 and was re-financed in June 2010 in accordance with the adopted 2009-10 Budget.
2. The re-financed loan (Loan 22A) has a loan term of twelve months, expiring in June 2011.
3. The 2010-11 Budget included repayment of the principal amount of Loan 22A in June 2011 using funds from the sale of Cull Road lots.

### **DISCUSSION**

4. Cull Road lots are currently being actively marketed. However, indications are that there will be insufficient funds available from the sale of Cull Road lots to repay Loan 22A when it matures on 29 June 2011.
5. The City has not considered the re-allocation of existing expenditure commitments in 2010-11 to the extent required to fund the loan repayment.
6. The loan facility is with the Western Australian Treasury Corporation (WATC). The process of rolling over the loan with WATC has commenced, although no commitment will be made without the approval sought in the above recommendation.

### **GOVERNMENT CONSULTATION**

7. Nil

### **PUBLIC CONSULTATION / ENGAGEMENT**

8. Nil

**CEO:**

**RESPONSIBLE OFFICER:**

## STATUTORY IMPLICATIONS

9. *A local government has the power to borrow under the Local Government Act 1995 :*

### 6.20. **Power to borrow**

(1) *Subject to this Act, a local government may —*

- (a) *borrow or re-borrow money;*
- (b) *obtain credit; or*
- (c) *arrange for financial accommodation to be extended to the local government in ways additional to or other than borrowing money or obtaining credit,*

*to enable the local government to perform the functions and exercise the powers conferred on it under this Act or any other written law.*

(2) *Where, in any financial year, a local government proposes to exercise a power under subsection (1) (**power to borrow**) and details of that proposal have not been included in the annual budget for that financial year —*

- (a) *unless the proposal is of a prescribed kind, the local government must give one month's local public notice of the proposal; and*
- (b) *the resolution to exercise that power is to be by absolute majority.*

(3) *Where a local government has exercised a power to borrow and —*

- (a) *it does not wish to proceed with the performance of the function or the exercise of the power for which the power to borrow was exercised; or*
- (b) *after having completed the performance of the function or the exercise of the power for which the power to borrow was exercised, any part of the money borrowed, credit obtained or financial accommodation arranged has not been expended or utilized,*

*the local government may resolve\* to expend the money or utilize the credit or financial accommodation for another purpose if one month's local public notice is given of the proposed change of purpose.*

*\* Absolute majority required.*

(4) *A local government is not required to give local public notice under subsection (3) —*

- (a) *where the change of purpose has been disclosed in the annual budget of the local government for the relevant financial year; or*
- (b) *in such other circumstances as are prescribed.*

(5) *A change of purpose referred to in subsection (3) is to be disclosed in the annual financial report for the year in which the change occurs.*

**6.21. Restrictions on borrowing**

- (1) *Where, under section 6.20(1), a regional local government borrows money, obtains credit or arranges for financial accommodation to be extended to the regional local government that money, credit or financial accommodation is to be secured only —*
- (a) *by the regional local government giving security over the financial contributions of the participants to the regional local government's funds as set out or provided for in the establishment agreement for the regional local government;*
  - (b) *by the regional local government giving security over Government grants which were not given to the regional local government for a specific purpose; or*
  - (c) *by a participant giving security over its general funds to the extent agreed by the participant.*
- (1a) *Despite subsection (1)(a) and (c), security cannot be given over —*
- (a) *the financial contributions of a particular participant to the regional local government's funds; or*
  - (b) *the general funds of a particular participant,*
- if the participant is not a party to the activity or transaction for which the money is to be borrowed by, the credit is to be obtained for, or the financial accommodation is to be extended to, the regional local government.*
- (2) *Where, under section 6.20(1), a local government borrows money, obtains credit or arranges for financial accommodation to be extended to the local government that money, credit or financial accommodation is only to be secured by giving security over the general funds of the local government.*
- (3) *The Treasurer or a person authorised in that behalf by the Treasurer may give a direction in writing to a local government with respect to the exercise of its power under section 6.20(1) either generally or in relation to a particular proposed borrowing and the local government is to give effect to any such direction.*

**STRATEGIC IMPLICATIONS**

10. This item relates to the following elements from the Albany Insight – Beyond 2010 Corporate Plan...

Community Vision:  
Nil

Priority Goals and Objectives:  
Goal 4: Governance... The City of Albany will be an industry leader in good governance and service delivery.

Objective 4.2 The City of Albany will manage the Municipal Assets to ensure they are capable of supporting our growing community.

City of Albany Mission Statement:  
At the City of Albany we are accountable and act as a custodian with respect to Council Assets.

**POLICY IMPLICATIONS**

11. Nil

**RISK IDENTIFICATION & MITIGATION**

12.

<b>Risk</b>	<b>Likelihood</b>	<b>Consequence</b>	<b>Risk Rating</b>	<b>Mitigation</b>
Loan not approved By WATC	Unlikely	Severe	High	Re-allocation of 2010-11 expenditure commitments. Change of purpose of reserves.

**FINANCIAL IMPLICATIONS**

13. The Gross Debt to Revenue Ratio at 30 June 2011 would move from a budgeted 45.2% to a projected 50.2%. Contributing to the higher ratio is the higher than anticipated loan liability, resulting from re-financing the loan and lower than budgeted revenue resulting from the reinstatement of the differential rate. The projected Gross Debt to Revenue Ratio at 30 June 2011 compares to the actual Gross Debt to Revenue Ratio at 30 June 2010 of 56.9%.
14. Subject to 2011-12 budget deliberations, repayment of the refinanced loan in June 2012 would depend on the successful sale of Cull Road properties.

**LEGAL IMPLICATIONS**

15. Nil

**ALTERNATE OPTIONS**

16. Council could direct staff to re-allocated expenditure priorities in the last quarter to make funds available to re-pay the loan. This could have a significant impact on (most likely) capital works planned between now and 30 June 2011.
17. Council could approve a change of purpose of reserve funds and re-direct such funds to repayment of the loan. This would significantly deplete reserve balances.

**SUMMARY CONCLUSION**

18. Nil

<b>Consulted References</b>	
<b>File Number (Name of Ward)</b>	
<b>Previous Reference</b>	