

LATE REPORT NO. 4 - FOR ORDINARY MEETING 21 APRIL 2009

Subject: CCS - 2008/2009 Loan Borrowing
Index: 2008/2009 Loan Borrowing
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SUMMARY OF REPORT:

Council's 2008/2009 budget included loan borrowings of \$3,323,000. Requests have been submitted to major lending institutions to obtain the most attractive interest rate available.

SUMMARY OF RECOMMENDATION:

It is recommended that Council accept the offer received from the National Australia Bank being the 10 year loan fixed for five years at 6.293% and then renewable and that the Common Seal be affixed to all necessary loan documentation .

FINANCIAL/RESOURCE IMPLICATION:

The loan borrowings have been provided in the current budget and the associated repayments have been provided for in Council's 2009/2010 budget, with the first repayment being due in July 2009.

POLICY IMPLICATIONS:

Nil.

LEGAL IMPLICATIONS:

Council will be required to authorise the fixing of the Common Seal to the necessary documentation.

LIST OF ANNEXURES:

Nil.

ATTACHMENTS

Nil.

REPORT

Council's 2008/2009 budget included loan borrowings of \$3,323,000. Requests have been submitted to major lending institutions to obtain the most attractive interest rate available based on the following terms:

The respective terms for the loans sought are as follows:

Amount	\$3,323,000
Term	10 years
Instalment/Repayments	Quarterly - principal and interest

In previous years Council has sought loans with a fixed interest rate for the life of the loan however as a result of the current economic conditions lending authorities are reluctant to lend at a fixed rate for such a period and the rates offered appear to reflect this reluctance.

Offers have been received by three of the four major banking institutions of 6.774%, 8.45% and 9.14% for a fixed rate for the life of the loan.

Most of the lending authorities approached provided alternative options for finance ranging from one year fixed interest rate to five year fixed interest rate (loans reassessed after the fixed period) and also straight variable interest rates.

The best of these options are:

4.48% Fixed for 1 year and then renegotiated.
6.293% Fixed for 5 years and then renegotiated
Variable 5.93% for ten years
Variable 5.1% for 3 years and then renegotiated.

The options received were discussed by senior staff and it was deemed that the offer received from the National Australia Bank of 6.293% fixed for an initial five years was the most appropriate. Quarterly repayments of interest and principal for the first five years are \$112,597.59.

It is intended that these loans be drawn down on the 22 or 23 April 2009.

Whilst Council has obtained offers from the major banking institutions it is still required to borrow in accordance with the Minister for Local Governments Orders.

The Minister's order for borrowings states:

"A Council shall not;

1. Borrow at an interest rate in excess of the indicative rate as calculated by the New South Wales Treasury Corporation"

The indicative rate as calculated by the NSW Treasury corporation for 15 April 2009 is 6.18% for a 10 year term and none of the five or 10 year fixed interest rate options provided to Council are below or equal to this indicative rate.

Council has raised this issue with the Department of Local Government and is waiting on their response, however in the past their advice has been for Council to accept the best offer available at the time of drawing down the loan.

RECOMMENDATION:

It is recommended that Council accept the offer received from the National Australia Bank being the 10 year loan fixed for five years at 6.293% and then renewable and that the Common Seal be affixed to all necessary loan documentation.

