13 USE OF LOCAL GOVERNMENT FUNDING VEHICLE INTERIM BORROWING FACILITY

FILE REFERENCE INT1987562

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RECOMMENDATION

That Council:

1. Approve the use of Local Government Funding Vehicle (LGFV) interim borrowing facility with Commonwealth Bank of Australia (CBA).

2. Authorise the CEO, as Council's representative, to approve refinancing of the $8.0m borrowed through the facility and maturing in November 2019.

Attachments
Nil.

EXECUTIVE SUMMARY

An $8.0m loan Council borrowed through the LGFV in 2014 matures during November 2019. Council's long term financial plan was prepared on the basis that this $8.0m loan would be rolled over into a new issuance of the funding vehicle. As this issuance has not yet occurred, an interim funding facility with CBA has been made available. Council is able to borrow $8.0m from the CBA interim facility for 1.91% (vs 4.24% in the expiring LGFV), and once the new issuance is established, this interim facility will be rolled over to this new issuance. A recommendation of loan term for the new issuance will be brought to Council when information is available.

BACKGROUND

The Municipal Association of Victoria ("MAV") established a pooled borrowing vehicle on behalf of its 79 Victorian member Councils, the "Local Government Funding Vehicle" (LGFV). The objective of the LGFV was to raise funding from the public bond market on behalf of participating Councils, providing a more cost competitive financing solution to Victorian Councils.

The LGFV initiative arose following the Vision Super defined benefit superannuation shortfall. A funding options evaluation was undertaken to review the debt procurement model of the sector. The purpose of this review was to determine the optimal funding platform to address the defined benefit shortfall and ongoing borrowing requirements of the sector.

The key benefit of the LGFV for Councils include significant savings, diversification of funding source, low cost, transparency and best practice.

POLICY IMPLICATIONS

At its meeting on 19 May 2014, Council agreed to the recommendation of the use of the LGFV as a new source of funding for future borrowing requirements, and the borrowing of $8.0m, being the $4.0m borrowings in the 2014-15 budget and the refinancing of the $4.0m loan drawn down in 2013-14.

Council consequently borrowed the $8.0m on 12 November 2014 for a term of five years at a fixed interest rate of 4.24%.

In July 2019, MAV requested expressions of interest from Councils for another issuance of the funding vehicle. Cardinia Shire Council expressed its interest at that time. The purpose of this issuance is to refinance bonds maturing in November 2019, meet the additional borrowing requirements of the Local Government sector, and generate long-term savings for Councils. The issuance was expected to occur around October/November 2019, in line with the maturity of the 2014 five year bond issuance. Until there has been sufficient volume generated in the sector for another funding vehicle, an interim facility has been made available to Councils with the Commonwealth Bank of Australia, which can then be refinanced into the next issuance.

RELEVANCE TO COUNCIL PLAN

5.3.3 Manage the municipality's finances and assets in a responsible way.

CONSULTATION/COMMUNICATION

Nil.

FINANCIAL AND RESOURCE IMPLICATIONS

The $8.0m loan was not budgeted to be repaid in 2019-20, with the intention being to roll it over within the LGFV for a further period of five years.

Interest on the $8.0m loan at 4.24% per annum has been included in the 2019-20 budget for $339,200. Refinancing the loan at the lower indicative variable interest rate of 1.91% will realise savings on interest costs of approximately $120,000 in 2019-20.

CONCLUSION

The interim borrowing facility will allow Council to refinance its existing borrowings from the LGFV at a lower interest until the new issuance is available.