

2.4 BORROWING POLICY

Policy Number	2.4	Date Commenced	19/03/2013
Date Adopted	20/03/2013	Resolution Number	19/03/2013/007
Review Timeframe	Four years		
Last Review Date	10/2/16	Next Scheduled Review Date	February 2020
Policy Responsibility	Finance Manager		

Document History

Version	Date Amended	Details Comments e.g. Resolution Number
2.4.001	10/2/16	Alter small loan amount

POLICY SUMMARY

This policy sets forth the particular circumstances under which Council will use external debt as a source of funds and principles to be applied in relation to borrowing.

OBJECTIVES

- To ensure the sound management of Council's existing and future debt.
- To clearly state the set of circumstances which should exist when Council is considering the use of debt to fund projects.
- To provide guidance as to the information that must be taken into consideration when Council is considering the use of debt.
- Compliance with Ministerial guidelines issued under Section 258 of the Local Government Act which requires a Council to have a Borrowing Policy before any borrowing takes place.

BACKGROUND

Borrowing can be an appropriate source of funds for local government. However, the use of debt is only appropriate if certain circumstances apply and the Council has a responsibility to ratepayers to employ the funds raised from new borrowings in an efficient and productive manner.

Debt is a productive and equitable source of funds only to the extent that it provides leverage to:

- fund the acquisition, construction, expansion or refurbishment of a major capital asset or other expansion in capital works, or;
- to upgrade obsolete technology; or to intensify the capital base of Council so as to reduce the ongoing cost of operating programs.

Debt is not a productive or equitable use of Council resources when used as a substitute for current revenue in maintaining or replacing the existing levels of asset infrastructure, or for covering, whether directly or indirectly, the cost of interest on debt. Debt should not be used for these purposes.

POLICY STATEMENT

The underlying principle to be applied by Coomalie Community Government Council is that of equity between present and future ratepayers. This principle will guide the Council in all decisions to raise new borrowings; it requires that adequate repayment of outstanding debt is spread equitably over time.

External borrowings will be limited to the funding of major items of physical infrastructure:

- whose life will exceed the term of any loans borrowed; and
- which cannot be funded from the revenue sources of the Council, or;
- major items of plant and equipment where the expenditure will be matched over time by a reduction in the ongoing cost of the activity for which the loan is to be raised.

Items to be funded by new borrowings will be identified in the Strategic/Shire Plan and Budget for the year in which the funds are proposed to be borrowed, thus undergoing a period of public consultation when the draft Strategic/Shire Plan and Budget is released for public comment. This condition may be waived in circumstances where an emergency or urgent situation required the use of borrowings and those borrowings complied with all other policy conditions.

For financial management purposes debt will be carried in the accounts in accordance with Council's major functions with the ability to individually identify the loans for each project or to consolidate debt for like projects e.g. Road Infrastructure and periodic reporting to Council will address outstanding debt and debt servicing.

Council will review, at least annually, its forward projections for cash reserves, borrowings and major capital funding and all decisions to undertake borrowings will take into account the projected cash reserves with a view to internally sourcing the loan where practicable and appropriate.

Where the Council raises funds from new borrowings, the funds will only be used for the purpose for which the loan was raised, or, where the Council anticipated raising a loan for a specific purpose, and used money from other sources for that purpose, to reimburse that source unless the Council by resolution determines otherwise.

If a borrowing is undertaken and the final project cost is less than budget, resulting in unexpended loan funds, these funds may be reallocated to eligible projects by resolution of Council subject to gaining any necessary approvals. If unexpended loan funds are not reallocated they will be placed in reserve until such time as a suitable use of the funds is identified.

Where a loan was raised by Council to obtain an asset and the loan has not been repaid when the asset is sold, the Council will first apply the proceeds of the sale to

the repayment of the loan source unless the Council by resolution determines otherwise.

Additional factors to be considered when Council is considering new borrowings will include:

- appropriate types of financial institutions and the obtainment of funds on a competitive basis having regard for minimising the net interest costs associated with borrowing over the longer term and consideration of the structure of any proposed loan (e.g. fixed or variable interest);
- interest rate and other risks (e.g. liquidity risks and investment credit risks);
- repayment of debt as quickly as possible subject to overall budgetary constraints;
- maximum term for all loans to be set at a level commensurate with the expected length of time a benefit would be derived from the resulting asset and evaluated on a case by case basis but not normally exceeding twenty (20) years;
- maximum term for small loans (<\$500,000) to be set at five (5) to ten (10) years with consideration given to whether such borrowings can be funded from existing cash reserves;
- repayment of borrowings to occur bi-annually or more frequently if this results in significant interest savings;
- where borrowing from an existing cash reserve occurs in lieu of external financing, the reserve will be repaid at a comparative market interest rate and term on commencement of the borrowing and in line with this policy;
- the impact of and alternatives to debt, including special rates and charges;
- Where the borrowings are for commercial purposes, consideration will be given as to whether the return on the investment can service the debt redemption, including consideration of community service obligations;
- the affordability of proposals having regard to the council's long-term financial sustainability (including consideration of the cost of capital and the impact of the proposal on Council's Net Financial Liabilities and Interest Cover ratios) and the ability of ratepayers to meet the proposed debt servicing obligations.

Debt Servicing Ratio

Debt repayment is a long-term commitment of revenue flows. Both the current and future revenue and expenditure patterns of Council must be considered when establishing debt repayment levels in any year.

When undertaking any expansionary borrowing strategy, of primary importance is the ability to service debt from current revenues – both now and in the future. There must be an ability to fund from recurrent revenues (and not from borrowings) all ongoing recurrent expenditures associated with maintaining existing levels of service (including the value of the asset base) and current levels of debt service, before increased levels of debt are undertaken.

The Debt Servicing Ratio at any time will be dependent on whether Council at that time is adopting:

- a strategy of growth with its supporting infrastructure, technological upgrade or capital intensification of services, or;
- alternatively, maintaining the status quo in the provision of services to the community.

An increasing Debt Servicing Ratio shall only coincide with the growth or expansion in the levels of asset infrastructure, technological upgrade or the capital intensification of programs which reduce other costs of these programs.

During periods when Council is primarily maintaining existing levels of asset infrastructure and services, the Debt Servicing Ratio should not increase, but be seen to fall over time in the interests of equity for future ratepayers.

Impact of Internal Borrowings

When evaluating the impact of financing decisions on Council's operations, the impact of all borrowings, whether internal or external, will be taken into consideration.

Legislation, terminology and references

Part 10.3 of the Local Government Act sets out the requirements for Council borrowing, with borrowing defined as obtaining 'any form of financial accommodation' (Section 122).

Other than for an overdraft of less than 2% of the Council's total revenue income for the preceding financial year obtained for a term of less than two months and transactions classified as of a 'minor nature' borrowing requires Ministerial approval (Section 123). Borrowings of up to \$200,000 **in total** do not require Ministerial approval.

The Minister has also issued mandatory Guidelines (29/06/2008) pursuant to S258 of the Local Government Act which require a Council to have a Borrowing Policy before any borrowing takes place.

Implementation and delegation

The Local Government Act prohibits the Council delegating powers to officers for borrowing money.

Evaluation and Review

This Policy should be evaluated on the basis that there has been compliance with the

- Policy, and;
- Local Government Act and Ministerial guidelines in relation to any future loans.