



2.4 Borrowing Policy

Council Resolution:	2022/06/21/013
Date to take effect:	22/06/2022
Legislative reference:	<i>Local Government Act 2019 Local Government (General) Regulations 2021 Ministerial Guideline 3: Borrowing</i>
Review Date:	June 2026

1. Purpose

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

2. Principles

Council recognises that borrowing is an important funding method that may be utilised to meet Council's long-term strategic objectives. The underlying principle to be applied by Council is that of intergenerational equity and long-term financial sustainability, ensuring adequate repayment of outstanding debt is spread equitably over time.

3. Policy Statement

3.1 Borrowing Purposes

- 3.1.1 Council has a responsibility to ratepayers to employ the funds raised from new borrowings in an efficient and productive manner.
- 3.1.2 Council may apply to the Minister to borrow funds for capital projects or one-off special projects.
- 3.1.3 Where the Council raises funds from new borrowings, the funds will only be used for the purpose for which the loan was raised.
- 3.1.4 External borrowings will be limited to the funding of major items of physical infrastructure:
 - a) Whose life will exceed the term of any loans borrowed; and
 - b) Which cannot be funded from the revenue sources of the Council; or
 - c) 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.
- 3.1.5 Council will not borrow funds to meet recurrent operational requirements except for minor transactions as described in the Ministerial Guidelines.

3.2 Borrowing Considerations

- 3.2.1 Council will have considered the following factors before applying to borrow funds:
 - a) The impact of and alternatives to external borrowings, including special rates and charges, and borrowing from reserves.

- b) Items to be funded by new borrowings will be identified in the Shire Plan and Budget for the year in which the funds are proposed to be borrowed and will therefore undergo a period of public consultation through this process. 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.
- c) The affordability of proposals having regard to 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.
- d) 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;

3.3 Borrowing Conditions

3.3.1 Type and Source of Borrowing:

- a) Internal borrowing from reserves may be considered as part of any borrowing strategy.
- b) Borrowings will only be in Australian Dollars.
- c) Borrowings will be sourced at the most competitive rate from sources available with an appropriate financial credit rating. Financial institutions must be APRA listed.
- d) Consideration must be given to minimising the net interest costs associated with borrowing over the longer term and the structure of any proposed loan (e.g. fixed or variable interest).

3.3.2 Debt Term:

- a) 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;
- b) 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;
- c) External borrowings used to purchase or construct an asset will be repaid over a period no longer than the physical life of the asset. Where the borrowings have not been repaid if the asset is sold, Council will first apply the proceeds of the sale to the repayment of the loan, unless Council by resolution determines otherwise.
- d) 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.

3.3.3 Other Conditions of Borrowing:

- a) Repayment of the debt will be as quickly as possible subject to overall budgetary constraints;
- b) Repayment of borrowings is to occur bi-annually or more frequently if this results in significant interest savings.
- c) 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 all necessary approvals. If unexpended funds are not reallocated, they will be placed in reserve until such time as a suitable use of the funds is identified.

3.4 Approval for Borrowing

3.4.1 Council requires approval from the Minister for Local Government to undertake external borrowing unless it is a minor transaction as defined in the Ministerial Guidelines.

3.4.2 Applications to the Minister need to consider any Ministerial or Department borrowing guidelines and be accompanied with a detailed business case as outlined in the Guidelines.

3.5 Reporting Requirements

- 3.5.1 For external financial reporting purposes, borrowing will comply with Australian Accounting Standards.
- 3.5.2 As part of the monthly financial report, the following information regarding both internal and external borrowing will be provided:
- a) Original borrowings per loan
 - b) Total annual interest paid per loan
 - c) Total annual principal repayments paid per loan
 - d) Balance outstanding on each loan
 - e) Relevant financial ratios
- 3.5.3 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).
- 3.5.4 Council will annually review its forward projections for cash reserves, borrowings and major capital funding. 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.
- 3.5.5 In the event of a loan payment default, the Council must be notified by the Chief Executive Officer.

4. Other Relevant Matters

4.1 Associated Documents

- 4.1.1 Coomalie Community Government Council Shire Plan
- 4.1.2 Coomalie Community Government Council Long Term Financial Plan

DOCUMENT HISTORY 2.4 Borrowing Policy		
Date Adopted:	20/03/2013	Council Resolution 19/03/2013/007
Amended:	10/02/2016	Alter small loan amount
Amended:	21/06/2022	Council Resolution 2022/06/21/013 Change to new format, new legislation and guideline references.
Amended:		