



BORROWING POLICY

1.0 SCOPE

- 1.1 This Policy applies when considering and determining the annual budget.
- 1.2 Council officers must consider the application of this Policy when considering new borrowings, including when refinancing existing borrowings.

2.0 PURPOSE

The Borrowing Policy provides appropriate parameters for Council staff to ensure:

- (a) That borrowing activities comply with relevant legislation.
- (b) To ensure that cash is available to support planned expenditure.
- (c) The net interest costs associated with borrowing and investing are minimised.
- (d) Interest rate and liquidity risks are acknowledged and responsibly managed.

3.0 POLICY STATEMENTS

3.1 Borrowing Strategy

- 3.1.1 Council depends on significant investments in long-term infrastructure assets to deliver its services.
- 3.1.2 Council manages the financing and funding of future wants and needs through forward financial planning included in its long-term Financial Management Strategy (updated annually).
- 3.1.3 In considering new debt Council will consider the impact of borrowing costs on the sustainability of operating positions and the capacity to repay debt.
- 3.1.4 Council's operating and capital expenditure decisions are made based on:
 - (a) Identified community needs and benefits relative to other expenditure options;
 - (b) Cost-effectiveness of the proposed means of service delivery; and
 - (c) Affordability of proposals regarding the Council's long-term financial sustainability.
- 3.1.5 Council will ensure it maintains sufficient borrowing capacity to respond to significant unexpected events.
- 3.1.6 Council recognises that borrowings are an important funding source as it provides the opportunity to bring unfunded projects forward and ensures that the total infrastructure cost is not borne entirely by present-day ratepayers.
- 3.1.7 Borrowings may be used as an effective mechanism of linking the payment for long-term assets (i.e. debt repayments) to the populations who receive benefits over the asset's life. This matching concept is frequently referred to as 'inter-generational equity'.
- 3.1.8 Council will aim to keep debt levels low at any point in time as its Annual Plan and Budget Estimates, Long Term Financial Plan and associated cash flow projections allow.
- 3.1.9 Surplus funds not immediately required to cover approved expenditure may be applied to reduce the loan portfolio where possible or to defer and/or reduce the level of new borrowings that would otherwise be required.
- 3.1.10 Council shall raise all external borrowings at the most competitive rates available.

DOC NO: FIN.014	VERSION NO: 2	APPROVAL DATE: 20 March 2023
CONTROLLER: General Manager	APPROVED BY: COUNCIL	REVIEW DATE: March 2026

BORROWING POLICY

3.2 Interest Rate Risk Exposure

- 3.2.1 Council recognises that future movements in interest rates are uncertain. Council is exposed to interest rate risks whenever it borrows.
- 3.2.2 When entering into borrowing arrangements, Council will seek to minimise interest costs and or/ maximise the best value for our community over the long term without introducing undue volatility in annual interest costs.
- 3.2.3 Council will consider the appropriateness of the various types of debt products available (including savings offset arrangements).
- 3.2.4 The tenor of a loan will not be greater than the expected useful life of the asset being funded by the loan.

3.3 Borrowing Limits

- 3.3.1 In accordance with S.80 of the *Local Government Act 1993*, Council will not borrow money for any purpose if the annual payments required to service the total borrowings exceed 30% of its revenue of the preceding financial year. Grants made to a council for specific purposes are to be excluded in calculating 30% of the revenue of the Council.
- 3.3.2 Council will not borrow to fund recurrent operating expenditure. This type of expenditure is to be funded from recurrent operating revenue streams (rates, fees and charges etc.).
- 3.3.3 Council will not borrow to fund recurrent capital works, which is inclusive of the acquisition, replacement or renewal of assets (for example road resurfacing). This type of expenditure is to be funded from cash generated from operating activities or cash reserves.

3.4 Leases

- 3.4.1 Leasing as a funding option may form part of Council's overall borrowing strategy.
- 3.4.2 There are two types of lease:
 - (i) An *operating lease* is where Council hires the asset for a set fee per period, and at the end of the agreed time, ownership of the asset remains with the lessor or the hiring company. Council can terminate the lease at any time without incurring a penalty.
 - (ii) A *finance lease* is where Council agrees to a series of payments and a residual value for the asset. There is a penalty for terminating the agreement prior to the finishing date. At the end of the period, it's expected that Council will purchase the asset for the agreed residual value.
- 3.4.3 Council will periodically undertake a lease versus buy analysis for assets and may consider lease funding options for:
 - (a) Assets that diminish in value quickly (e.g. motor vehicles, IT and equipment);
 - (b) Assets that will be disposed of in a short timeframe; and
 - (c) Where the lease option transfers responsibilities to the asset owner for maintenance and disposal, providing a financial advantage to Council.

DOC NO: FIN.014	VERSION NO: 2	APPROVAL DATE: 20 March 2023
CONTROLLER: General Manager	APPROVED BY: COUNCIL	REVIEW DATE: March 2026



BORROWING POLICY

3.5 Management Framework

3.5.1 Borrowing decisions will be made annually as part of Council's Annual Budget process and the Financial Management Strategy will guide the decision-making of Council.

3.6 Responsibilities

Council	Approving borrowings by way of inclusion of all borrowings in the Annual Budget (or Amended Annual Budget where applicable).
General Manager	Responsible for approval of loan offers in accordance with the resolution of Council, so long as the requirements of this Policy are adhered to.
Manager Financial Services	Responsible for managing financial sustainability risks and developing appropriate control framework, including the development of policies and procedures and maintaining long-term financial management strategy. Undertake cash flow projections ensuring that Councils working capital requirements are met, and surplus funds are applied in accordance with this Policy.
Financial Accountant	Administer borrowings in accordance with this Policy and the Annual Plan and Budget Estimates adopted by Council. Maintain a borrowing schedule and ensure current contractual obligations are met.

Legislative Requirements:

There is no specific section of the *Local Government Act 1993* requiring the Council to make this Policy, however, the following will be taken into consideration:

Borrowings by Council will be in accordance with the *Local Government Act 1993* - Section 78-80.

Related Procedures/Guidelines:

- Financial Management Strategy
- Annual Plan and Budget Estimates
- Australian Accounting Standards
- Australian Centre of Excellence for Local Government (ACELG) & Institute of Public Works Engineering Australasia (IPWEA) 2014, Debt is Not a Dirty Word, Role and Use of Debt in Local Government

DOC NO: FIN.014	VERSION NO: 2	APPROVAL DATE: 20 March 2023
CONTROLLER: General Manager	APPROVED BY: COUNCIL	REVIEW DATE: March 2026