

	POLICY TITLE:	BORROWING POLICY
	POLICY NUMBER:	P47
	CATEGORY:	COUNCIL POLICY
	RESPONSIBLE OFFICER:	CHIEF EXECUTIVE OFFICER

1. PURPOSE:

The purpose of this policy is to:

- Ensure the sound management of council's existing and future debt.
- Clearly state the set of circumstances and risks that should exist when council is considering the use of debt to fund projects and other capital purchases.
- Provide guidance as to the information that must be taken into consideration when council is considering the use of debt.
- Ensure funds are available as required to meet approved outlays.
- Ensure interest rates and other risks (e.g. liquidity risks and investment credit risks) are acknowledged and responsibly managed.
- Ensure the net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.
- Ensure outstanding debt is repaid as quickly as possible resulting in gross debt being minimised.

2. SCOPE:

This Policy applies to all employees and councillors of Wagait Shire Council and extends to all borrowing activities of council and any controlled entities.

3. DEFINITIONS:

Borrowings: means any form of financial accommodation for example, an overdraft, a loan, hire purchase or instalment purchase agreement and the present value of future payments under a finance lease.

Minor transaction: a 'minor transaction' for the purposes of Section 123(2) of the Local Government Act is an amount of \$ \$50,000 or less for a schedule 1 local government. This amount is a total amount inclusive of all borrowings that have not been approved by the Minister and includes overdraft facilities, financial leases, secured or unsecured loans, bank overdrafts, lines of credit or any other credit facility.

4. POLICY:

Local Government Ministerial Guideline #5 issued under Section 258 of the Local Government Act requires a council to have a Borrowing Policy in accordance with part 10.3 (Council Borrowing) of the act before any borrowing takes place.

Wagait Shire Council will only consider to undertake borrowing if general principles are followed. Council shall monitor its capacity to pay, to ensure the community is not burdened with unnecessary risk and will review the interest rates, liquidity risks, and investment credit risks. The general principles to be abided by are:-

- all alternative options for undertaking the project without borrowing have been investigated and proved less advantageous to the Council;
- the benefit received from undertaking the borrowing is greater, over the life of the borrowing, than the costs of borrowing;
- repayments will be met from project income or other untied income of council.

4.1 Borrowing purposes

Borrowing can be an appropriate source of funds for local government. However, the use of debt is only appropriate if certain circumstances apply and Wagait Shire 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, fleet and plant; 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 Wagait Shire 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.

4.2 Debt term

Wagait Shire Council will borrow new loans for a period that maximizes efficiency. Wagait Shire Council will plan to repay borrowings over the physical life of the asset as determined by ATO depreciation guidelines, with a renewal period of every 5 years.

Maximum term for minor transactions (<\$50,000) will be for no more than five (5) years with consideration given to whether required funds can be sourced from existing cash reserves or through the imposition of rates, special rates or other charges.

4.3 Long term financial viability

Wagait Shire Council will maintain a Long Term Strategic Financial Plan in order to demonstrate its long term financial viability and ability to service loan repayments. This plan will forecast future revenue and expenditure levels including loan borrowings and servicing costs. The plan will be reviewed annually during the budget process to ensure that council remains financially viable in the long term and that the proposed budgets are consistent with the adopted strategy.

4.4 Type and source of borrowing

- Internal borrowing from reserves may be considered as part of any borrowing strategy.
- Borrowings will only be in Australia dollars.
- Council shall raise all external borrowings at the most competitive rates available and from sources available as defined by legislation with an appropriate financial credit rating.

4.5 Approval for borrowing

The Local Government Act prohibits the council delegating powers to officers for borrowing money. Therefore council must approve all borrowings by way of resolution. Council will assess each borrowing request as separate transactions. Those borrowing transactions approved by council are subject to ministerial approval depending on whether the transaction is defined unless otherwise exempted.

4.5.1 Overdraft:

Under Section 123 Local Government Act the Minister's approval is not required for an advance overdraft if:

- a) The term of the advance does not exceed two months; and
- b) The amount of the advance does not exceed 2% of the Council's total revenue income for the last financial year for which the Council has an audited financial statement.

4.5.2 Minor Transaction:

Under Section 123 Local Government Act the Minister's approval is not required for a transaction classified as a minor transaction under guidelines issued by the Minister. Under the guideline Wagait Shire Council is a Schedule 2 council and a minor transaction therefore is an amount of \$50,000 or less. This is a total amount inclusive of all borrowings that have not been approved by the Minister and includes overdraft facilities, financial leases, secured or unsecured loans, bank overdrafts, lines of credit or any other credit facility (including all credit card transactions).

4.5.3 Minister's Approval:

All borrowings, other than the above mentioned (4.4.1 and 4.4.2), require Minister's approval under Section 122, 123, 124 and 124 of the Local Government Act. Minister's approval for borrowings is given only after consultation with the

Treasurer. Wagait Shire Council may, with the Minister's approval, give security for a borrowing in the nature of a mortgage or charge over property. The Minister will consult with the Treasurer and will not approve a security over a property, if in the Minister's opinion, it is essential that the property be retained in the ownership of the council.

4.5.4 Seeking Approval from Minister for Local Government:

To seek approval for borrowings, Wagait Shire Council should forward a letter requesting to borrow money, including a business case, to the Minister with the responsibility for Local Government. The letter needs to be accompanied with a details business case including, but not limited to:

- Details of the procurement including the assessment of its various options to fund the procurement.
- Forward cash estimates for at least three years and detailing the capacity and ability to service borrowing.
- A report on the current financial position and financial performance against its revenue and expenditure budget.
- Council minutes approving the procurement, approving the intention to borrow and approving the CEO to secure a loan.
- Planned financial agreements indicating the intended term of the borrowing, type of the principal and interest repayments, total cost of borrowing and conditions attaching to any securitisation. This information needs to be supported by a finance proposal from a lending institution.

4.6 Reporting requirements

The Chief Executive Officer will provide council on a monthly basis a report detailing the following:

- total borrowings
- debt service ratio
- debt to revenue ratio and
- net financial liabilities to revenue ratio

And for each loan:

- the purpose for which the loan was received
- security provided for the loan
- the financial institution making the loan
- the type of loan
- the original loan amount
- payments made in the reporting period
- the current outstanding balance on the loan
- the current interest rate
- any default on the terms of the loan

5 ASSOCIATED DOCUMENTS

P05 Council Staff Code of Conduct
P09 Accounting and Policy Manual
P29 Delegations Manual
P43 Councillor code of conduct

6 REFERENCES AND LEGISLATION

Local Government Act
Local Government (Accounting) Regulations
Local Government (Administration) Regulations
Australia Accounting Standards
Ministerial Guideline 5

7 REVIEW HISTORY

Date Approved:	19/02/2019	Approved By: Council	Resolution no. 2019/334	Date for review:	19/02/2022
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