



KATHERINE TOWN COUNCIL

POLICIES & PROCEDURES

FINANCE – BORROWING POLICY 2013

SUMMARY

This policy sets forth the particular circumstances under which Council will use external debt as a source of funds.

PURPOSE

- 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 the Local Government Act Section 258 which requires Council to have a Borrowing Policy before any borrowing takes place.

DEFINITIONS

“**Borrowing**” means obtaining any form of financial accommodation as per s 122 of the Local Government Act.

A “**Minor Transaction**” means an amount of less than \$200,000 as per s 123(2) of the Local Government Act. It includes all credit card transactions.

POLICY STATEMENT

As a general principle, borrowings for capital works are an important funding source for Council and that the full cost of these items should not be borne entirely by present and future ratepayers.

Council restrict all borrowings to expenditure on identified capital projects that are considered by Council to be of the highest priority, and which cannot be funded from revenue, as identified by the adopted budget. In no circumstances should Council borrow funds for recurrent expenditure.

Borrowing 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.

However, borrowing 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.



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All new borrowings will be identified in the Municipal Plan and Budget for the year in which the funds are proposed to be borrowed, thus undergoing a period of public consultation. This condition may be waived in circumstances where an emergency or urgent situation required the use of borrowings.

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. Periodic reporting to Council will address outstanding debt and debt servicing.

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

If a borrowing occurs and the final project costs are less than budgeted, resulting in unexpended funds, these funds may be reallocated to eligible projects by resolution of Council subject to gaining any necessary approvals. If unexpended funds are not reallocated they will be placed in Council's reserves until such time as a suitable use of the funds is identified through resolution by Council.

Where a borrowing is raised by Council to obtain an asset and the loan has not been repaid when the asset is sold, Council will first apply the proceeds of the sale to the repayment of the loan source unless Council, by resolution, determines otherwise.

Additional factors to be considered by Council when deliberating on 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. For example: fixed or variable loan rates.
- Interest rate and other risks. For example: investment credit risk.
- Repayment of debt as quickly as possible subject to overall budgetary limitations.
- 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 borrowing.
- Where borrowing from an existing cash reserve occurs in lieu of external financing, the reserve will be repaid at a comparative market interest rate.
- 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 Council's long term financial sustainability.

Minor Transactions

Council must not borrow in total more than \$200,000 without Ministerial approval



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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. Of primary focus for Council must be the importance of the ability to service the 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 and current levels of debt service, before borrowings 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.

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.

Implementation and Delegation

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

Evaluation and Review

This policy should be evaluated on the basis that there has been compliance with the Local Government Act, Ministerial Guidelines, and said policy in relation to any future borrowings.