
POLICY TITLE: **LOAN BORROWINGS**

FOLDER NUMBER: F2007/00307

POLICY OWNER / DIVISION: Corporate Support Division

POLICY OWNER / BRANCH: Financial Services

FUNCTION: Finance

RELEVANT LEGISLATION: The Local Government Act 1993 and The Local Government General Regulation 2005
Office of Local Government Circulars 07-35 & 09-21

POLICY ADOPTION/AMENDMENT DATE: 11 May 2022 **REPORT NUMBER:** CS4/22

REVIEW YEAR: 2025

AMENDMENT HISTORY: 11th February 1998 (Report ST1/98)
12th June 2002 (Report CC41/02)
9 March 2005 (Report CC5/05)
11 April 2007 (Report CC11/07)
8 April 2009 (Report CC12/09)
20 April 2011 (Report CC10/11)
17 April 2013 (Report GM2/13)
8 April 2015 (Report CS6/15)
8 August 2018 (Report CS33/18)

RELATED POLICIES:

POLICY PURPOSE / OBJECTIVES:

To utilise, where appropriate, loan borrowings for capital projects or assets, bearing in mind Council's financial aim to have balanced annual budgets, a considered long term plan and prudent levels of debt.

POLICY STATEMENT:

1. The proceeds of any loan borrowings must be utilised to fund the following:
 - Land acquisitions
 - Asset acquisitions for strategic property holding.
 - New assets constructed, e.g. roads, sports/aquatic centre, sporting field, arts centre etc.
 - An asset replacement, e.g. a road reconstruction.
 - An asset upgrade, e.g. a footpath widening.
 - A specific and significant one time asset renewal, i.e. replacement or refurbishment of significant asset components.

As a point of principle, borrowings should not be used to fund general operations and maintenance projects as subsequent loan repayments will reduce funds otherwise available.

2. Loan funds may be used for capital projects where:
 - the loan is used for sound economic purposes and the level of risk is minimised and,
 - the loan is tied specifically to an asset or project which could be sold in the future or,
 - the loan is used to provide an asset or project which generates income which can meet the loan repayments as demonstrated by an appropriate business plan and the income or operational savings from the asset or project can repay the loan over a period of 10 years or less or,
 - intergenerational equity is provided to ratepayers e.g. libraries, roads, flood mitigation projects etc.
3. Council shall agree a maximum debt level for any financial year based on maintaining local government financial ratios and that repayments can be met from annual budgets. The term of the loan should not exceed the expected economic life of the asset being funded.
4. Council must comply with the Borrowing Order made from time to time by the Minister for Local Government.
5. Where the need for a loan to fund capital projects is identified in the approved budget, the loan will be drawn down in June of the budget year in order to minimise interest expense for the budget year.
6. In respect of the drawing down of such a loan, a Report will be provided to Council seeking specific approval for the loan. When so resolved, the General Manager will be authorised to seek interest rate quotes, accept the lowest evaluated quote and advise Council by memo of the outcome.
7. Loans to Council are a charge on general income and cannot be secured over a specific project, [Clause 229 of the Local Government (General) Regulation 2005].
8. Within 7 days of drawing down a loan, the General Manager is required to notify the Director General of the Office of Local Government [Clause 230 of the Local Government (General) Regulation 2005].
9. Internal loans may be utilised where adequate Internally Restricted Asset Accounts exist and subject to the criteria contained in paragraph 2 above. In general terms, internal loans are utilised when the expected repayment period is short e.g. less than five years.