BORROWING POLICY

COUNCIL POLICY

PURPOSE

To provide the appropriate parameters for Council to undertake borrowings without compromising the application of sound fiscal management, risk minimisation and good governance.

PRINCIPLES

City of Palmerston recognises that borrowing is an important funding method that may be utilised to meet Council's long-term strategic objectives, whilst addressing intergenerational equity and long-term financial sustainability.

DEFINITIONS

For the purposes of this Policy, the following definitions apply:

TERM	DEFINITION
Borrowings	Any form of financial accommodation for example, an overdraft, a loan, hire purchase or instalment purchase agreement.
Minor Transaction	An amount specified by legislation. 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).

1. POLICY STATEMENT

1.1. Borrowing Purposes

1.1.1. City of Palmerston has a responsibility to ratepayers to employ the funds raised from borrowings in an efficient and productive manner.

1.1.2. City of Palmerston may apply to the Minister to borrow funds for capital projects or one-off special projects.

1.1.3. City of Palmerston will not borrow funds to meet recurrent operational requirements except for minor transactions.

1.1.4. Where City of Palmerston raises funds through borrowings (External), the funds will only be used for the purpose for which the loan was raised.

1.1.5. Internal Borrowings are considered as part of the Financial Reserves Policy.

1.2. Borrowing Considerations

1.2.1. The following factors will be considered before City of Palmerston applies to borrow:

- The impact and alternatives to external borrowings, including alternative sources of revenue (e.g., special rates and charges), or borrowing from reserves are to be identified.
- Items that shall be funded through external borrowings will have undergone public consultation and align with the intent of the Community Plan. This condition may be waived where an emergency or urgent matter requires borrowings, and those borrowings comply with all other policy conditions.
- The structure, term and repayment schedule of any proposed borrowings will be analysed to manage cashflows and minimise the risk to Council.
- City of Palmerston will identify the affordability of proposals having regard to the long- term financial impacts of borrowing and the ability of City of Palmerston to meet the proposed debt servicing obligations.

1.3. Borrowing Conditions

1.3.1. Type and source of borrowing:

- Borrowings will only be in Australian dollars.
- Borrowings will be sourced at the most competitive rate from sources available with an appropriate financial credit rating. Financial institutions need to be Australian Prudential Regulation Authority (APRA) listed.

1.3.2. Debt term:

- Maximum term for all borrowings will be set at a level commensurate with the expected length time a benefit would be derived from the resulting asset and evaluated on a case-by-case basis but not exceeding twenty years.
- Small borrowings (<$3 million) will have a maximum term of ten years.
- If external borrowings are used to purchase or construct an asset, the borrowings 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, City of Palmerston will first apply the proceeds of the sale to the repayment of the loan.

1.4. Approval for Borrowing

1.4.1. City of Palmerston requires approval from the Minister for Local Government to undertake external borrowing unless it is an advance on overdraft and is a minor transaction. Such an application needs to consider any Ministerial or Department borrowing guidelines and be accompanied with a detailed business case including, but not limited to:

- Details of the purpose of the borrowing including an assessment of various alternative funding sources.
- Details of the proposed loan including proposed loan value, intended term of the borrowing, structure of principal and interest repayments, total cost of borrowing and conditions attaching to any securitisation.

- Forward cash estimates detailing the capacity and ability to service the debt.
- A report on the current financial position and projected financial performance for the financial year.
- Council minutes approving the intention to borrow and approving the CEO to secure a loan.
- Council minutes approving the loan application to the Minister.

1.5. Reporting Requirements

1.5.1. For external financial reporting purposes borrowing will comply with Australian Accounting Standards.

1.5.2. As part of the monthly financial report to Council, the following information regarding external borrowing will be provided:

- Original borrowings per loan.
- Total annual interest paid per loan.
- Total annual principal repayments paid per loan.
- Balance outstanding on each loan.
- Relevant financial ratios.

1.5.3. In the event of a loan payment default, Council must be notified by the Chief Executive Officer.

ASSOCIATED DOCUMENTS

- City of Palmerston Municipal Plan
- City of Palmerston Long-Term Financial Plan

REFERENCES AND RELATED LEGISLATION

- Local Government Act 2019
- Local Government Guideline 3: Borrowings

OWNER	CEO	RESPONSIBLE OFFICER	General Manager Finance and Governance
APPROVAL DATE	January 2025	NEXT REVIEW DATE	January 2029
RECORDS NUMBER	441169		10/1702