

COUNCIL POLICY LG505

SUSTAINABLE LOAN FUNDING

KEY FOCUS AREA LEADERSHIP AND GOVERNANCE

Purpose

The purpose of this policy is to ensure:

1. The maximisation of community benefit through exercising responsible financial management, which includes the proper consideration of accessing the most appropriate funding sources (property rates, fees and user charges, grants / subsidies, borrowings, reserve funds, etc.).
2. The appropriate and responsible forward planning for the management of the Council's financing of capital projects, utilising a sustainable borrowing strategy.

Policy

The need for the effective delivery of services to the community and undertaking of major capital infrastructure works and maintenance initiatives, often results in projects competing for limited financial resources.

To ensure the maximisation of community benefit whilst exercising responsible financial management, Council, through the budget process and the Long Term Financial Plan will give proper consideration to accessing the most advantageous funding sources.

The primary potential funding sources are:

1. Property rates;
2. Fees and user charges;
3. Grants (e.g. Financial Assistance Grants) and subsidies;
4. Borrowings from external institutions or from Council's own (internal) Reserves;
5. Other funding sources such as interest income, dividends, interest on grants and subsidies, fines; and
6. Disposal of capital assets.

Attempting to fund major projects such as those identified in this policy from the current budget without a responsible funding mix can create short term pressures on rates and/or leads to a reluctance to adequately fund the capital requirements of the Town. This can create a gap between funding needs and the funding available to properly maintain, renew, enhance or provide community assets.

The types of asset maintenance projects to be funded by loan borrowings are those that will have a financial impact over a number of years. This ensures that Ratepayers are not burdened by unrealistic expenditure levels in short time frames. The repayment for these assets can then be repaid over the years relating to the life of the asset, thereby being potentially paid for by the rate revenue (and other sources) of the ratepayers that make use of the asset.

Council can effectively manage the future funding requirements for appropriate capital projects by utilising borrowing capacity in a responsible and sustainable manner. The Long Term Financial Plan will identify the peaks and troughs in asset renewal. Using debt to fund the peaks and using troughs to pay off the debt is a financially viable and sustainable strategy to adopt.

The use of borrowing within a policy framework of responsible financial management is a legitimate, appropriate and financially viable funding alternative in the development of financial strategies for the Town's capital funding initiatives.

Policy Statement

Council recognises that the use of loans as a funding source is an integral component of a sustainable approach to financing the Town's responsibilities and will therefore actively investigate the use of loans for significant capital projects where appropriate.

1. Loan funds are in no circumstances to be used for 'operational' funding. They may only be applied to significant projects of a *capital* nature (including renewal of infrastructure assets) and may only be borrowed for those projects that:
 - are of vital importance to the Town (e.g. an integrated town-wide traffic management plan);
 - create or renew major community infrastructure which has an extended asset life;
 - will have a positive future cash flow i.e. Expenditures which will have an investment return which will return a net financial gain to Council.
2. Proposals for the use of borrowed funds will be subjected to critical financial analysis and a report submitted to Council for final endorsement to undertake the borrowing. This analysis must include:
 - a) The term of the loan;
 - b) Interest rates;
 - c) Borrowing source;
 - d) An explanation and assessment of how the proposal complies with paragraph 2 of the purpose above.

Prior to Council authorising any proposal to utilise loan funds, the following policy requirements must be taken into consideration:

When utilising loan funding, Council will consider borrowing from its own internal Reserves where it can be demonstrated that the Reserve funds will not be required for the purpose of the Reserve during the term of the proposed loan, and such utilisation would not cause any financial impediment to the Reserves' designated purpose.

Where internal reserves are utilised, the following is to be applied:

1. Interest will be payable to the reserve at the existing State Treasury borrowing interest rate for the term proposed at the time of borrowing, on the reducing balance of the amount borrowed;
2. Principal repayments will be made (together with interest) on a half yearly basis on 31 December and 30 June each year;
3. The annual principal repayments will be the sum required to extinguish the loan over the designated term;
4. Repayments of the outstanding balances may be made at any time during the term of the loan if funds become available for such purpose. The repayments will be at the face value of the outstanding amount;

5. Terms of borrowings are to be determined relative to the expected useful life of the asset/benefit resulting from the utilisation of the borrowed funds;
6. All borrowings are to be undertaken in strict accordance with the statutory requirements as detailed in Section 6.20 of the *Local Government Act 1995*.

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