

<b>Policy number</b>	Policy 305
<b>Policy title</b>	Loan borrowing limitations
<b>Strategic outcomes supported</b>	CL1 – Effectively managing resources and performance CL3 - Accountability and good governance

## Policy objective:

To provide guidance on loan borrowings to provide guidance as to the appropriate terms of all borrowings and to ensure Town's financial resources are appropriately managed.

## Policy scope:

This policy is intended to provide clear direction for the Town's debt management strategies in relation to long term borrowing activities and applies to all loans obtained by the Town.

## Policy definitions:

Nil.

## Policy statement:

### Position on long-term borrowings

Whilst the preferred policy position of the Town is to minimise debt, the Town recognises that it may be necessary to use long-term borrowings for the acquisition, renewal or construction of assets. In these instances, the following principles for loan long-term borrowings apply;

- The Town will not borrow money to fund operating expenditure (excluding underground power projects). This type of expenditure should be funded through operating revenue streams such as rates, fees and charges or operating grants.
- The Town will not borrow money to fund capital expenditure for replacement or renewal of assets that is expected to occur on an annual or similar basis. Examples of this type of expenditure are road resurfacing, plant replacement, information technology, office equipment acquisitions and replacements. This type of expenditure shall be funded through capital grants and operating revenue streams such as rates or fees and charges.
- The Town may borrow money to fund new and major capital expenditure, strategic land acquisitions and underground power projects.
- The maximum debt repayment period will be determined by taking in to account the expected useful lives of the asset being financed and considerations relating to intergenerational equity.
- The maximum total cost of servicing long-term borrowings must not exceed 10% of the total rates revenue in any financial year. However, if the acquisition or project generates a direct income stream, this revenue will reduce the total cost of servicing. Examples of this being underground power projects, self-supporting loans or revenue-generating strategic projects.

### Exceptions

Exceptions to the above principles would only occur in an emergency or when considered necessary on a case-by-case basis. In such cases, Council would consider the circumstances, nature of the borrowing, the repayment terms and the source of the funding.

## Approved forms of long-term borrowing

Borrowing may come in many forms though to ensure clarity and provide certainty of exposure the approved forms of borrowing are:

- Fixed-term loans with a set amount, fixed interest rate, and scheduled principal and interest repayments
- Finance leases (covered under Policy 301 – Procurement).
- Internal borrowings.

## Internal borrowings

Council may consider an internal borrowing from a reserve fund is an option to finance projects in lieu of borrowing externally, however the same position will apply. It should be noted that the Local Government Act places restrictions on the use of funds held in reserve accounts;

### 6.11. Reserve accounts

1. Subject to subsection (5), where a local government wishes to set aside money for use for a purpose in a future financial year, it is to establish and maintain a reserve account for each such purpose. (2) (3)
2. Subject to subsection (3), before a local government – (a) changes\* the purpose of a reserve account; or (b) uses\* the money in a reserve account for another purpose, it must give one month's local public notice of the proposed change of purpose or proposed use. \*Absolute Majority Decision Required.
3. A local government is not required to give local public notice under subsection (2) – (a) where the change of purpose or of proposed use of money has been disclosed in the annual budget of the local government for that financial year.

It should be noted that by undertaking an internal borrowing there will be a reduction in investment earnings for that reserve as a result.

## Related documents

[Local Government Act 1995](#)

<b>Responsible officers</b>	Manager Finance Manager Strategic Accounting Coordinator Finance
<b>Policy manager</b>	Chief Financial Officer
<b>Approval authority</b>	Council
<b>Next evaluation date</b>	May 2027

## Revision history

Version	Action	Date	Authority	Resolution number	Report number
1	Adopted	28/09/1999	Council	-	Item 4.1
2	Amended	15/08/2006	Council	-	Item 4.1
3	Reviewed	09/07/2013	Council	-	Item 10.1
4	Reviewed	11/08/2015	Council	-	Item 10.1
5	Reviewed and amended	20/08/2019	Council	148/2019	Item 10.1
6	Reviewed	18/02/2020	Council	326/2020	Item 15.7
7	Reviewed and amended	20/04/2021	Council	78/2021	Item 15.4
8	Reviewed	18/04/2023	Council	73/2023	Item 15.3
9	Administratively amended	24/08/2023	Delegation	-	
10	Administratively amended	14/09/2023	Delegation	-	
11	Reviewed and amended	20/05/2025	Council	95/2025	Item 11.3