



**Victoria Daly**  
REGIONAL COUNCIL

## 1. INTRODUCTION

### 1.1. Purpose

This policy sets forth the circumstances under which Council might use debt as a source of funds and principles to be applied in relation to borrowing.

Debt funding may be appropriate in the following circumstances:

- 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 to reduce the ongoing cost of operating programs
- There are no other available sources of funding
- The Council is satisfied it can manage the risk and meet the debt repayments in the context of long-term financial planning and financial sustainability.

Debt will not be used to cover recurrent operating expenses. Council prefers to minimise debt and financial risk; however, debt funding is not precluded as a tool to assist management within the context of financial prudence, long term planning and sustainability.

### 1.2. Scope

This policy applies to all staff and relevant function across the Victoria Daly Regional council.

### 1.3. Policy Objectives

This policy provides a framework for the management of Council's debt to:

- ensure the sound management of Council's existing and future debt in the context of long-term financial planning and financial sustainability
- minimise the cost of borrowing
- Compliance with legislation including regulations and any Ministerial directions or guidelines
- ensure funds are available as required to meet approved capital outlays
- provide guidance as to the information that must be taken into consideration when Council is considering the use of debt.



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## 2. RELEVANT TO ACT

Section 197(2)(b) of the Act states that the Minister's approval is not required for a transaction classified as a minor Transaction under the guidelines issued by the Minister.

## 3 GENERAL PRINCIPLES

3.1 Council must exercise reasonable care and diligence that a prudent person would exercise when borrowing funds.

3.2 Council must consider;

(a) the type of borrowing it wishes to take out, namely;

(i) short term – less than 18 months; or

(ii) medium term – between 18 months and 5 years; or

(iii) long term – more than 5 years; and

(b) the type of interest rate it wishes to consider for the borrowing (fixed, variable or a combination of both)

(c) if it will approve an overdraft facility for day-to-day transactions, and if so, the amount of such a facility.

3.3 It is the duty of each Council Member to understand the impact of the terms and conditions of the borrowing arrangements and the risk before the Council enters the borrowing contract.

## 4. POLICY STATEMENT

### 4.1 Policy Outline

4.1.1 External borrowings will be limited to the funding of significant items of capital expenditure:

- the life of which is expected to exceed the term of any funds borrowed
- that cannot be funded from other sources
- that are within the bounds of affordability, risk and financial sustainability

4.1.2 Any projected borrowings must be outlined in the Regional Council Regional Plan including the purpose of the projected borrowing and the type of borrowing under clause 7.2(a) of the Local Government Guidelines No.3 for

4.1.3 the year in which the funds are proposed to be borrowed.



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This allows for a period of public consultation during the draft Regional Plan (This condition may be waived in circumstances where an emergency or urgent situation requires the use of borrowings, and those borrowings comply with all other policy and legal requirements such as Ministerial consent).

- 4.1.4 As soon as borrowing is approved and obtained, the borrowing must be reflected in the next budget review under regulations 9 of the Local Government (General) Regulations 2021.
- 4.1.5 The decision to seek approval from the Minister to borrow money is one that requires a Council Resolution regulation 197(3)(a).
- 4.1.6 For external financial reporting purposes, debt will be carried in the accounts in accordance with generally accepted accounting practice.
- 4.1.7 Council will decide whether the funding of capital expenditure should be by way of a loan (internal or external) or by utilisation of available funds after considering long term financial planning and sustainability.
- 4.1.8 If the Minister grants approval to borrow the money, a fresh approval from the minister must be sought before any decision to:
  - (a) Increase the borrowing amount; or
  - (b) Change the approved purpose.
- 4.1.9 Unexpended loan funds will be placed in a reserve until such time as a suitable use of the funds can be identified and approved by Council.
- 4.1.10 Where a loan was raised by Council to obtain an asset and the loan has not been repaid when the asset is sold or otherwise disposed of, the Council will consider, based on costs and benefits, first applying any proceeds of the sale or disposal to the repayment of the loan source.
- 4.1.11 Additional factors to be considered when Council is considering new borrowings include:
  - obtaining funds on a competitive basis to minimise costs associated with borrowing



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- consideration of the structure of any proposed loan (e.g., fixed or variable interest)
- interest rate and other risks (e.g., liquidity risks and investment credit risks)
- repayment of debt period to be no longer than the weighted average estimated useful life of the related asset purchased or 20 years, whichever is the lesser
- repayment of borrowings to occur at least bi-annually
- repayments will be met from project income or other untied income of Council
- alternatives to debt
- where the borrowings are for commercial purposes, consideration will be given as to whether the return on the investment can service the debt (after consideration of community service obligations and any other objectives)

### **4.2 Debt Servicing Ratio**

4.2.1 The debt service ratio is to be the key indicator of Council's ability to sustain its level of debt.

4.2.2 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, or;
- maintaining the status quo in the provision of services to the community.

An increasing Debt Servicing Ratio should be demonstrated to be financially sustainable (e.g., through the long-term financial plan).

4.2.3 The Debt Servicing Ratio should not exceed 5% of untied revenue as identified in the most current audited Annual Financial Report (principal plus

4.2.4 interest repayments as a percentage of revenue which is not tied to the provision of a service or program).

4.2.5 The Chief Executive Officer shall report to Council on an annual basis detailing the loan portfolio.



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## 4.3 Legislation, terminology and references

4.3.1 Before any borrowing refer to:

- Local Government Guidelines No 3.
- Local Government (General) Regulations 2021
- The Local Government Act 2019.

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