CF009	LOANS AND BORROWING		
POLICY OWNER:	Council		
DEPARTMENT:	Office of the CEO	**RESPONSIBLE OFFICER**	DCEO
CREATION DATE:	23/08/2022	**REVIEW SCHEDULE:**	Annually
RELATED PROCEDURES:			
RELATED FORMS:			
RELATED DELEGATIONS:			
RELATED POLICIES:			
LEGISLATION:	reg 38 (1) (f) Local Government (Financial Management) Regulations 1996		
DOCUMENT CONTROL			
DATE REVIEWED:	**REVIEWED BY:**	**CHANGES (IF ANY):**	**ENDORSED BY COUNCIL:**
23/08/2022	Council	Nil	FC7/8/22
28/11/2023	Council	Nil	OCM 11/11/23
24/09/2024	Council	Nil	OCM03/09/24

CF009 Loans and Borrowing

OBJECTIVES

To affirm that the preferred policy position of Council is to minimise debt, and should that not be practicable, to set out the circumstances in which Council may consider Borrowings or Other Financial Accommodation to fund the acquisition, renewal, or construction of specified assets and to provide guidance as to the appropriate terms of any such borrowing.

POLICY STATEMENT/S

Whilst the preferred policy position of the Shire of Carnarvon is to minimise debt (except for Self-Supporting loans), the Shire recognises that the acquisition, renewal, or construction of assets, it may require the prudent use of loan borrowings, debt instruments or other finance or capital raising methods from time to time.
The following principles are to be applied when considering undertaking borrowings or other asset financing:

<u>Operating Expenditure</u>

The Shire will not borrow money (other than by way of Excluded Borrowings) to fund operating expenditure.

This type of expenditure should be funded through operating revenue streams such as rates, fees and charges or operating grants.

<u>Recurrent Capital Expenditure</u>

The Shire will not borrow money or obtain debt finance (other than by way of Excluded Borrowings) to fund the acquisition, replacement or renewal of assets that is expected to occur on an annual or similar basis at approximately the same level each year i.e., recurrent capital works. Examples of this type of expenditure are road resurfacing, plant replacement, information technology and office equipment acquisitions and replacement.

This type of expenditure shall be funded through operating revenue streams such as rates and fees and charges.

Borrowing Term

The term of the Borrowing or Other Financial Accommodation shall be set having due regard to the Economic Life of the asset being acquired or constructed.

Should the Shire decide to borrow funds, the term of the borrowing shall generally not be greater than half of the Economic Life of the asset being acquired or constructed.

This is to enable the Shire to use the remaining economic half-life to set sufficient funds aside in a sinking or reserve fund to renew or replace that asset, should that be required, at the end of its Economic Life.

The Shire will not generally borrow funds (other than by way of Excluded Borrowings) to acquire an asset that has an economic life of less than five (5) years.

Borrowing Ratios

Prior to undertaking any borrowing, the Shire shall assess its capacity to pay, to ensure that the community is not burdened with unnecessary risk.

The Shire will report on its capacity to pay on an annual basis and publish the results in its annual report. When assessing the borrowing ratios, consideration will be given to the economic earnings potential of the asset being acquired or constructed.

Council will consider the debt serviceability ratios.

Borrowing Considerations

The Council will consider borrowing money for the acquisition or construction of an asset where:

- The asset to be acquired is a new addition to the Shire's asset base or replaces an existing asset with one that is significantly larger and has an economic life of greater than 10 years; or
- All alternative options for undertaking the project without borrowing, have been investigated and proven less advantageous to the Shire; or
- The net income stream and cost savings can be considered from the asset to be acquired or constructed exceeds the cost of borrowing over the life of that asset; or
- Repayments will be met by a third party e.g., self-supporting loans; or
- The index of the cost of acquisition or construction is increasing at a rate that exceeds the cost of borrowing i.e., to "save" for the acquisition or construction will result in the actual cost being greater than the cost of borrowing the money and acquiring or constructing the asset today.

- As a rule, the benefits received (cost savings or income earned) from undertaking the borrowing should be greater, over the life of the borrowing, than the costs of borrowing.
- Proper and detailed analysis of the costs and benefits of the borrowing has been undertaken and documented.