

STAFF REPORT

TO: Chair and Members, Corporate Services Committee

FROM: Murray Staite, Corporate Services Manager

DATE: 6 August 2007

SUBJECT: **Loan Raising Policy**

Purpose

Council's current policy in regards to loan raising requires a resolution of Council, prior to the loan being raised.

Background

Staff are seeking to change this policy to allow loans to be raised at the same time as the expenditure is incurred on the condition that the expenditure and the proposed loan are part of that year's budget. Council is required to have a resolution for all loans raised and this would be achieved by presenting to Council at the start of each financial year a list of budgeted capital projects and loans.

Discussion

The main benefit of the change, if permitted, would be a reduction in overdraft interest. There is often a considerable gap between when the expenditure is incurred and when the appropriate resolutions go through Council. Depending on the time of year this can cause cashflow to be constrained and overdraft interest costs are incurred. Inevitably overdraft interest is more expensive than loan interest. For example, a \$3 million dollar project funded for six weeks from overdraft interest rather than loan interest would cost Council \$3,461. The change in policy would ensure this cost was not incurred. Loan interest is also charged directly to the project, whereas overdraft interest is absorbed by the Corporate budget.

Recommendation

That staff prepare on an annual basis for Council adoption, a list of all loans contained within the annual plan.

That staff be permitted to raise loans as expenditure is incurred, subject to that loan being included in the annual plan.

Murray Staite
Corporate Services Manager

