

Council Policy

Title	Borrowing Policy		P47
Type	Council Policy		
Document Owner	Manager Finance		
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PURPOSE

The policy sets out the particular circumstances under which Council will use external debt as a source of funds and principles to be applied in relation to borrowing. The purpose of this policy is to:

- Ensure the sound management of Council's existing and future debt.
- Clearly state the set of circumstances that must apply when Council is considering the use of debt to fund projects and other capital purchases.
- Provide guidance as to the information that must be taken into consideration when Council is considering the use of debt.

SCOPE

This policy applies to all Councillors and Council staff and extends to all borrowing activities of Council and any controlled entities.

DEFINITION AND TERMS

Nil

LEGISLATION AND REFERENCE

- I. The Local Government Act sets out the requirements for Council borrowing, with borrowing defined as obtaining 'any form of financial accommodation and (or) acquiring possession under a hire-purchase agreement' (Section 122).
- II. Council may borrow money but only with the Minister's approval (to be given only after consultation with the Treasurer). (Section 123).
- III. The Minister's approval is not required for advance on overdraft if:
 - a) the term of the advance does not exceed 2 months; and
 - b) the amount of the advance does not exceed 2% of the council's total revenue income for the last financial year for which the council has an audited financial statement.

The Minister's approval is not required for a transaction classified as a minor transaction (\$200,000 or less) under the Northern Territory Government Guideline 5: borrowing.

- IV. The Minister has also issued mandatory Guidelines (29/06/2008) pursuant to S258 of the Local Government Act which require a Council to have a Borrowing Policy before any borrowing takes place.
 - *Local Government Act*
 - *Local Government (Accounting) Regulations*

- *Australian Accounting Standards*

POLICY STATEMENT

The underlying borrowing principles applied by Central Desert Regional Council is to ensure that;

1. All alternative options for undertaking the project without borrowing have been investigated and proved less advantageous to the Council;
2. The benefit received from undertaking the borrowing is greater, over the life of the borrowing, than the costs of borrowing;
3. Repayments will be met from project income or other untied income of Council.

BORROWING PURPOSES

External borrowings will be limited to the funding of major items of physical infrastructure:

- whose life will exceed the term of any loans borrowed; **and**
- which cannot be funded from the revenue sources of the Council, **or**;
- major items of plant and equipment where the expenditure will be matched over time by a reduction in the ongoing cost of the activity for which the loan is to be raised.

Items to be funded by new borrowings will be identified in the Regional Plan and Budget for the year in which the funds are proposed to be borrowed. Additional factors to be considered when Council is considering new borrowings will include:

- appropriate types of financial institutions and the obtainment of funds on a competitive basis having regard for minimizing the net interest costs associated with borrowing over the longer term and 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 as quickly as possible subject to overall budgetary constraints;
- maximum term for all loans to be set at a level commensurate with the expected length of time a benefit would be derived from the resulting asset and evaluated on a case by case basis but not normally exceeding twenty (20) years;
- maximum term for small loans (<\$1 million) to be set at five (5) to ten (10) years with consideration given to whether such borrowings can be funded from existing cash reserves;
- repayment of borrowings to occur in a manner that this results in significant interest savings;
- the impact of and alternatives to debt, including special rates and charges;
- (where the borrowings are for commercial purposes) whether the return on the investment can service the debt redemption, including consideration of community service obligations;
- the affordability of proposals having regard to the Council's long-term financial sustainability (including consideration of the cost of capital and the impact of the proposal on Council's Net Financial Liabilities and Interest Cover ratios) and the ability of Council to meet the proposed debt servicing obligations.

DEBT SERVICING RATIO

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

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An increasing Debt Servicing Ratio should be demonstrated to be financially sustainable (for example through the long term financial plan).

The Debt Servicing Ratio should not exceed 5% (principal plus interest repayments as percentage of total revenue)

REPORTING REQUIREMENTS

The Chief Executive Officer will provide Council on a monthly basis a report detailing the following:

- Total borrowings
- Debt Service Ratio,
- Debt to Revenue Ratio and
- Net Financial Liabilities to Revenue Ratio.

And for each loan:

- the purpose for which the loan was received
- security provided for the loan
- The financial institution making the loan
- The type of loan
- the original loan amount
- payments made in the reporting period
- the current outstanding balance on the loan
- the current interest rate
- any default on the terms of the loan

REVIEW HISTORY

Date	Details
8 June 2012	Adopted by Council CRN 334/2012
15 August 2014	Reviewed and all references to Shire replaced – modification to clause 110/2014
9 October 2015	Reviewed no changes recommended. OC146/2015
December 2016	Revised
25 July 2019	Standardised formatting and added reporting section OC079/2019