

FIN010 – Borrowing Policy

1. POLICY CERTIFICATION

Policy title:	Borrowing Policy
Policy number:	FIN010
Category:	Policy
Classification:	Finance
Status:	Approved (3/9/2012 FCM) Amended (26/6/2013 OCM)

2. PURPOSE

This policy has been developed to help Elected Members and Employees of Roper Gulf Regional Council to understand the parameters and considerations required by Council in the decision to borrow funds. The policy details a set of guiding principles to ensure the sound management of the existing and future debt of Roper Gulf Regional Council. The purpose of this policy is:

- to ensure the sound management of Council's existing and future debt.
- to clearly state the set of circumstances and risks that should exist when Council is considering the use of debt to fund projects and other capital purchases.
- to provide guidance as to the information that must be taken into consideration when Council is considering the use of debt.
- to ensure funds are available as required to meet approved outlays
- Interest rate and other risk (e.g. liquidity risks and investment credit risks) are acknowledged and responsibly managed.
- the net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.
- to ensure outstanding debt is repaid as quickly as possible resulting in gross debt being minimised.
- in accordance with Local Government Ministerial Guideline #5 issued under Section 258 of the Local Government Act which requires a Council to have a Borrowing Policy in accordance with part 10.3 of the act before any borrowing takes place.

3. SCOPE

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

4. POLICY STATEMENT

Roper Gulf Regional Council will only consider to undertake borrowing if general principles are followed. Council shall monitor its capacity to pay, to ensure the community is not burdened with unnecessary risk and will review the interest rates, liquidity risks, and investment credit risks. The general principles to be abided by are:-

- all alternative options for undertaking the project without borrowing have been investigated and proved less advantageous to the Council;

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- the benefit received from undertaking the borrowing is greater, over the life of the borrowing, than the costs of borrowing;
- repayments will be met from project income or other untied income of Council.

5. DEFINITIONS

For the purposes of this Policy, the following definitions apply:

Borrow	Includes raise and obtain, in any way, money, credit and other financial accommodation.
other financial accommodation	includes- <ul style="list-style-type: none"> ▪ finance leases primarily to raise amounts to buy, or to finance the purchase of, property the subject of the leases; and ▪ Guarantees, letters of credit and any other form of undertaking, provided by a financial institution or other person to meet the liabilities or obligations of a statutory body.
Minor transaction	Is an amount of \$200,000 or less inclusive of total borrowings
RGSC	Roper Gulf Regional Council
Long Term	term greater than 60 months
Medium Term	term less than 60 months
Short Term	term less than 24 months

6. PRINCIPLES

RGSC shall consider the following principles while determining the annual borrowing program.

6.1 Borrowing Purposes

Borrowing can be an appropriate source of funds for local government. However, the use of debt is only appropriate if certain circumstances apply and the RGRC has a responsibility to ratepayers to employ the funds raised from new borrowings in an efficient and productive manner.

Debt is a productive and equitable source of funds only to the extent that it provides leverage to:

- fund the acquisition, construction, expansion or refurbishment of a major capital asset or other expansion in capital works, or;
- to upgrade obsolete technology, fleet and plant; or to intensify the capital base of Council so as to reduce the ongoing cost of operating programs.

Debt is not a productive or equitable use of RGRC resources when used as a substitute for current revenue in maintaining or replacing the existing levels of asset infrastructure, or for covering, whether directly or indirectly, the cost of interest on debt. Debt should not be used for these purposes.

6.2 Debt Term

RGRC will borrow new loans for a period that maximizes efficiency. RGRC will plan to repay borrowings over the physical life of the asset as determined by ATO depreciation guidelines, with a renewal period of every 5 years.

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Maximum term for small loans (<\$1 million) will be set for five (5) years with consideration given to whether required funds can be sourced from existing cash reserves or through the imposition of rates, special rates or other charges.

6.3 Long Term Financial Viability

Roper Gulf Regional Council will maintain a Long Term Strategic Financial Plan in order to demonstrate its long term financial viability and ability to service loan repayments. This plan will forecast future revenue and expenditure levels including loan borrowings and servicing costs. The plan will be reviewed annually during the budget process to ensure that Council remains financially viable in the long term and that the proposed budgets are consistent with the adopted strategy.

6.4 Borrowing Sources

Council shall raise all external borrowings at the most competitive rates available and from sources available as defined by legislation with a financial credit rating equivalent to or better than Northern Territory Government, Department of Treasury and Finance.

6.5 Minor Transactions

A 'minor transaction' for the purposes of Section 123(2) of the Local Government Act is an amount of \$ \$200,000 or less. This amount is a total amount inclusive of all borrowings that have not been approved by the Minister and includes overdraft facilities, financial leases, secured or unsecured loans, bank overdrafts, lines of credit or any other credit facility.

6.6 Borrowing Limits

Minor transactions defined in 123(2) of the Local Government Act (\$200,000 or less) do not require ministerial approval. **All other borrowing transactions will require ministerial approval.**

6.7 Credit Cards

Credit cards transactions will come under "minor transactions". If a credit card statement is not paid in full against a monthly statement, the council must be advised. The credit card facility limit is included in the "minor transaction" amount.

6.8 Implementation and Delegation

The Local Government Act prohibits the Council delegating powers to officers for borrowing money. Therefore Council must approve all borrowings by way of resolution. Council will assess each borrowing request as separate transactions. Those borrowing transactions approved by Council are subject to ministerial approval depending on whether the transaction is defined as a minor transaction (see definitions in section 5 of this document).

6.9 Reporting Requirements

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

- Total borrowings

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- 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

6.10 Australian Accounting Standards AASB

The accounting for borrowing transactions must be in accordance with AASB.

7. REFERENCES

Acknowledgements (original author/source documents)	Local Government Guideline 5 – Borrowing Local Government Act (2008) and Accounting Regulations
Related Policies	FIN001 – Financial Delegation Manual FIN005 – Corporate Credit Card Policy FIN006 - Accounting Policy and procedures manual
Related Publications	

8. DOCUMENT CONTROL

Policy number	010
Policy Owner	Governance
Endorsed by	FCM
Date approved	3 September 2012
Revisions	
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9. CONTACT PERSON

Position **Manager Governance, Corporate Planning &
Compliance**

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