

FIN010 – Borrowing Policy

1. POLICY CERTIFICATION

Policy title:	Borrowing Policy
Policy number:	FIN010
Category:	Council Policy
Classification:	Finance
Status:	Approved

2. PURPOSE

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

- Sound management of Council’s existing and future debt;
- The set of circumstances and risks that should exist when Council is considering the use of debt to fund projects and other capital purchases are clearly outlined;
- The information that must be taken into consideration when Council is considering the use of debt is provided;
- Funds are available as required to meet approved outlays;
- Interest rates and other risks (for example, liquidity risks and investment credit risks) are to be acknowledged and responsibly managed;
- Net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term;
- Outstanding debt is repaid as quickly as possible resulting in gross debt being minimised; and
- Compliance with Part 10.3 of the *Local Government Act 2019* (Act) and Ministerial guideline made under the Act, *Guideline 3: Borrowing*.

3. ORGANISATIONAL SCOPE

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

4. POLICY STATEMENT

Council will only consider to undertake borrowing if the following general principles are abided by:

- 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; and
- Repayments will be met from project income or other untied income of Council.

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.

5. DEFINITIONS

Borrow	As per section 196 of the Act, a Council borrows money if the Council obtains any form of financial accommodation.
Financial Accommodation	Examples of financial accommodation may take the form of an overdraft or a loan, credit cards, a higher-purchase agreement for goods or lease or instalment purchase agreement. Financial accommodation does not include leases of land.
Council	Roper Gulf Regional Council.
CEO	Chief Executive Officer.
Long Term	Term greater than 5 years.
Medium Term	Term between 18 months and 5 years.
Short Term	Less than 18 months.
Minor Transaction	A borrowing transaction within a cumulative borrowing amount of \$300,000 or less.
The Act	<i>Local Government Act 2019</i>
Cumulative Borrowing Amount	The cumulative borrowing is the total amount borrowed and is calculated by adding together all amounts borrowed for each current borrowing (excluding borrowings that have been approved by the Minister).

6. PRINCIPLES

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Council 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 Council 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
- 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 Council 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

Council will borrow new loans for a period that maximizes efficiency. Council will plan to repay borrowings over the physical life of the asset as determined by the Australian Taxation Office *Guide to Depreciating Assets*, with a renewal period of every five (5) years.

Maximum term for small loans (<\$1 million) will be set for five (5) years. Consideration will be 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

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to or better than Northern Territory Government and the Department of Treasury and Finance.

6.5 Minor Transactions

A 'minor transaction' for the purposes of Section 197(2) of the Act is an amount of \$300,000 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 do not require Ministerial approval. All other borrowing transactions will require Ministerial approval as per *Guideline 3: Borrowing*.

6.7 Credit Cards

Each credit card limit is taken to be the amount borrowed and is included in the cumulative borrowing amount.

6.8 Implementation and Delegation

Council must approve all borrowings by way of resolution as per Section 197(3,4) of the Act. The resolution will be in accordance with Section 197(5) of the Act.

6.9 Reporting Requirements

The CEO or delegated officer will provide Council a monthly report detailing the following:

- Total Borrowings;
- Debt Service Ratio;
- Debt to Revenue Ratio; and
- Net Financial Liabilities to Revenue Ratio.

In addition, for each loan the CEO or delegated officer will provide Council the:

- Purpose for which the loan was received;
- Security provided for the loan;
- Financial institution making the loan;
- Type of loan;
- Original loan amount;
- Payments made in the reporting period;
- Current outstanding balance on the loan;
- Current interest rate; and
- Details of any default on the terms of the loan.

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6.10 Australian Accounting Standards Board (AASB)

The accounting for borrowing transactions must be in accordance with standards provided by the Australian Accounting Standards Board.

7. REFERENCES

Related Policies	OCEO002 Financial Delegations Manual; FIN005 Corporate Credit Card Policy; and FIN006 Accounting and Policy Manual.
Related Publications	<ul style="list-style-type: none"> • <i>Local Government Act 2019</i> • <i>Local Government (General) Regulations 2021; and</i> • <i>Ministerial Guideline 3: Borrowing; and</i> • <i>Australian Taxation Office Guide to Depreciating Assets.</i>

8. DOCUMENT CONTROL

Policy Number	010
Policy Owner	Finance Manager
Approved By	Council
Approval Date	3 September 2012
Revisions	June 2022
Amendments	26 June 2013 22 February 2023
Next revision due	June 2027

10. CONTACT PERSON

Position

Manager Corporate Compliance