

# Borrowing Policy

## Policy No. 3040.100.E.R

### 1 Purpose

The policy sets forth the particular circumstances under which Council might use debt as a source of funds and principles to be applied in relation to borrowing.

### 2 Scope

#### 2.1 Objectives

- Ensure the sound management of Council's existing and future debt in the context of long term financial planning and financial sustainability.
- Minimise the cost of borrowing.
- Compliance with legislation including regulations and any Ministerial directions or guidelines.

#### 2.2 Background

Debt funding may be appropriate in the following circumstances:

- fund the acquisition, construction, expansion or refurbishment of a major capital asset or other expansion in capital works, or to upgrade obsolete technology; or to intensify the capital base of Council so as to reduce the ongoing cost of operating programs
- there are no other available sources of funding
- the Council is satisfied it can manage the risk and meet the debt repayments in the context of long term financial planning and financial sustainability.

### 3 Policy Statement

External borrowings will be limited to the funding of significant items of capital expenditure:

- the life of which is expected to exceed the term of any funds borrowed
- that cannot be funded from other sources (Northern Territory Government guidelines require Council to consider the use of internal cash reserves).
- that are within the contexts of affordability, risk and financial sustainability.

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Items to be funded by new borrowings will normally be identified in the Municipal Plan and Budget for the year in which the funds are proposed to be borrowed, thus undergoing a period of public consultation when the draft Municipal Plan and Budget is released for public comment (this condition may be waived in circumstances where an emergency or urgent situation requires the use of borrowings and there is compliance with all other policy and legal requirements such as Ministerial consent).

For external financial reporting purposes borrowing will be carried in the accounts in accordance with Australian Accounting Standards.

Council will decide whether the funding of capital expenditure should be by way of borrowing, (external or internal) or simply a utilisation of available funds after considering long term financial planning and sustainability.

Borrowings are to be utilised for the purpose for which the loan was raised. Where due to circumstances it is no longer appropriate to use the loan for the original purpose the Council will ensure it complies with all legal requirements for changing that purpose and will advise the Department of Local Government of its intention to do so prior to any decision.

Unexpended loan funds will be placed in a reserve until such time as a suitable use of the funds is identified.

Where a loan was raised by Council to obtain an asset and the loan has not been repaid when the asset is sold, the Council will consider, on the basis of costs and benefits, first applying the proceeds of the sale to the repayment of the loan source.

Additional factors to be considered when Council is considering new borrowings include:

- Obtaining funds on a competitive basis such as in conjunction with the contracts section of Council to minimise costs associated with borrowing 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).
- Council will repay the loans within a term not exceeding the life of those assets, and over a term that optimises cash flow efficiency.
- Repayment of borrowings to occur at least bi-annually.
- Internal borrowing: Where “internal” borrowing from an existing cash backed reserve occurs in lieu of external financing, Council will consider the appropriateness of internal repayment back to the reserve at the opportunity cost to Council of the funds utilised (e.g. competitive investment interest rates) however this consideration will not preclude the use of higher rates (e.g. external debt rates) or lower rates or interest free internal borrowing and flexible repayment terms not exceeding the life of the assets funded.
- Alternatives to debt.
- Where the borrowings are for commercial or semi commercial purposes, consideration will be given as to whether the return on the investment can service the debt (after consideration of community service obligations and any other objectives).

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### 3.1 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.

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 10% (principal plus interest repayments as percentage of total revenue)

## 4 Definitions

Borrowings are defined as per Section 196 of the Local Government Act 2019.

'Minor transaction' is as defined in Local Government Guideline No. 3 Borrowings. This is defined as a borrowing transaction with a cumulative borrowing amount that is \$500,000 or less.

## 5 Legislative references

Part 10.3 of the Local Government Act 2019 sets out the requirements for Council borrowing at the time of adopting this policy, with borrowing defined as obtaining 'any form of financial accommodation' (Section 196).

Section 197 of Local Government Act 2019 provides where Ministerial Approval is not required:

- Advance of an overdraft if the term of the advances does not exceed 2 months and the amount of the advance does not exceed 2% of the councils total revenue for the last financial year for which council has an audited financial statement;
- A transaction classified as a minor transaction under guidelines issued by the Minister. Local Government Guideline No. 3 Borrowings

## 6 Procedures / related documents

Northern Territory Government Guideline 3: Borrowing (current from 2021)

## 7 Responsibility / application

There are no significant implementation issues arising from this reviewed policy.

S40 (3) (b) of the Local Government Act 2019 requires that if power to incur financial liabilities is delegated the Council, by resolution, must fix reasonable limits on the delegate's authority.

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