TITLE:	Borrowing Policy		
DIVISON:			
ADOPTED BY:	Council		
DATE OF ADOPTION:	March 20, 2014	DATE OF REVIEW:	March 2018
MOTION NUMBER:	41/14		
POLICY NUMBER:	CP000001		
AUTHORISED:	Chief Executive Officer		

THIS POLICY APPLIES TO:
All employees of the Barkly Regional Council and Elected Members

PREAMBLE

The aim of all policy is for Councillors to provide strategic input into the effective operational framework of the organisation under S.11 of the Local Government Act

SUMMARY

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

OBJECTIVES

The objectives of this policy are:

- To ensure the sound management of Council's existing and future debt;
- To clearly state when it is appropriate to use debt
- To provide guidance as to the information that must be taken into consideration when Council is considering the use of debt; and
- To comply with Ministerial Guidelines issued under Section 258 of the Local Government Act which require a Council to have a Borrowing Policy before any borrowing takes place.

BACKGROUND

The Minister has also issued mandatory Guidelines which require a Council to have a Borrowing Policy before any borrowing takes place.

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 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,
- To reduce ongoing costs.

Debt should not be used as a substitute for current revenue in maintaining or replacing existing assets and infrastructure or for covering, whether directly or indirectly, the cost of interest on debt.

POLICY STATEMENT

The underlying principle to be applied by Barkly Regional Council is that of equity between present and future ratepayers. This principle will guide the Council in all decisions to raise new borrowings

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 cost of borrowing (including the repayment of capital) 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 Corporate Plan and Budget for the year in which the funds are proposed to be borrowed. This condition may be waived in circumstances where an emergency or urgent situation requires the use of borrowings and those borrowings complied with all other policy conditions.

For financial management purposes debt will be carried in the accounts in accordance with Council's major functions with the ability to individually identify the loans. Periodic reporting to Council will address outstanding debt and debt servicing.

Council will review, at least annually, its borrowings and major capital funding.

Where the Council raises funds from new borrowings, the funds will only be used for the purpose for which the loan was raised, or, where the Council has acted in anticipation of raising a loan for a specific purpose, and has used money from existing Reserves for that purpose, to reimburse those Reserves.

If a borrowing is undertaken and the final cost is less than budget, resulting in unexpended loan funds, these funds may be reallocated by resolution of Council subject to gaining any necessary approvals. If unexpended loan funds are not reallocated they 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 first apply the proceeds of the sale to the repayment of the loan source unless the Council by resolution determines otherwise.

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 minimising 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 a 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;
- The possibility of internally sourcing the loan;
- When evaluating the impact of financing decisions on Council’s operations, the impact of all borrowings, whether internal or external, will be taken into consideration.

Debt Servicing Ratio

Debt repayment is a long-term commitment of revenue flows. An increasing Debt Servicing Ratio shall only coincide with the growth or expansion in the levels of assets/ infrastructure, technological upgrade or the capital intensification of programs which reduce the recurrent cost of these programs.

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.

When undertaking any expansionary borrowing strategy both the current and future revenue and expenditure patterns of Council must be considered. There must be an ability to fund from recurrent revenues (and not from borrowings) all recurrent expenditures associated with maintaining existing levels of service and current levels of debt servicing before increased levels of debt are undertaken.

During periods when Council is primary maintaining existing levels of asset/ infrastructure and services, the Debt Servicing Ratio should fall over time in the interest of equity for future ratepayers.

The Debt Service Ratio illustrates the debt service charges (loan principal and interest payments) as percentage of revenue from continuing operations (excluding capital items, specific purpose grants and contributions). The ratio should not exceed the maximum of 5%.

LEGISLATION, TERMINOLOGY AND REFERENCES

Part 10.3 of the Local Government Act sets out the requirements for Council borrowing, with borrowing defined as obtaining 'any form of financial accommodation' (Section 122).

'Borrowings' include any form of financial accommodation, for example, an overdraft, loan, hire purchase agreement or financial lease but do not include:

- An overdraft of less than 2% of the Council's total revenue income for the preceding financial year obtained for a term of less than two months; and,
- Transactions classified as a 'minor nature' such as credit card purchases and borrowings of up to $200,000 in total.

Borrowing requires Ministerial approval (Section 123). do not require Ministerial approval.

Ministerial Guidelines issued under Section 258 of the Local Government Act require a Council to have a Borrowing Policy before any borrowing takes place.

IMPLEMENTATION AND DELEGATION

The Local Government Act prohibits the Council delegating the power to borrow money.

EVALUATION AND REVIEW

This Policy should be evaluated on the basis that the Audit Committee is satisfied that it has been complied with and that the requirements of the Local Government Act and Ministerial Guidelines have been met in respect to borrowings since the Policy was last reviewed.

This Policy is to be reviewed every four (4) years, and may be reviewed at other times at the discretion of Chief Executive Officer.