POLICY

TITLE:	Borrowing Policy		
DIVISON:	Finance		
ADOPTED BY:	Council		
DATE OF ADOPTION:	January 2019	DATE OF REVIEW:	January 2022
MOTION NUMBER:	OC 35/19		
POLICY NUMBER:	CP01		
AUTHORISED:	Chief Executive Officer		

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

SUMMARY

The policy establishes the particular circumstances under which Barkly Regional Council (BRC) 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; and
- To identify the information that must be taken into consideration when Council is considering the use of debt.

BACKGROUND

Under the Ministerial Guidelines of the *Local Government Act*, all Councils must establish a Borrowing Policy before any borrowing takes place and all borrowings must be approved by the Minister.

Section 123 of the *Local Government Act* relevantly provides that:

'A council may borrow money but only with the Minister's approval (to be given only after consultation with the Treasurer)

1 The Minister's approval is not required for an advance on overdraft if:

a) The terms 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.

2 The Minister's approval is not required for a transaction classified as a minor transaction under guidelines issued by the Minister'

Under the Ministerial Guidelines, a 'minor transaction' is defined as $200,000 or less; any borrowing over $200,000 must gain Ministerial approval first.

Borrowing can be an appropriate source of funds for local government. However, the use of debt is only appropriate in certain circumstances and the Council must employ the funds raised from new borrowings in an efficient and productive manner.

Debt can be a productive and equitable source of funds when it:

- funds the acquisition, construction, expansion or refurbishment of a major capital asset(s) or other expansion in capital works for the Barkly region; or
- reduces 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.

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 that years Corporate Plan and Budget. 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 requirements, subject to CEO and Council approval.

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 Council raises funds from new borrowings, the funds will only be used for the purpose for which the loan was raised.

If a borrowing is undertaken and the final cost is less than budgeted, these funds may be reallocated by Council Resolution, 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.

When considering borrowing, Council must consider:

- appropriate types of financial institutions and the obtainment of funds on a competitive basis with regards to interest rate and other associated risks;
- the ability to repay the 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;
- whether small loans (<$1 million) can be funded from existing cash reserves;
- the impact of and alternatives to debt, including special rates and charges;
- whether the return on a loan for commercial purposes can service the debt redemption, including consideration of community service obligations;
- the affordability of the proposal having regard to the Council's long-term financial sustainability and the ability of Council to meet the proposed debt servicing obligations;

Debt Servicing Ratio

The Debt Servicing Ratio (DSR) is the ratio of cash available to invest principal and lease payments. The ratio should not exceed the maximum of 5%.

BRC's DSR will depend on whether Council at that time is adopting:

- A strategy of growth with its supporting infrastructure, technological upgrade or capital intensification of services; or
- the status quo in the provision of services to the community.

The Council's current and future revenue and expenditure patterns must be considered before undertaking an expansionary borrowing strategy and Council must be able to fund all recurrent expenditures associated with maintaining existing levels of service and current levels of debt servicing before increased levels of debt are undertaken from recurrent revenues.

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

LEGISLATION, TERMINOLOGY AND REFERENCES

Part 10.3 of the Local Government Act.

'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.

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.