

	POLICY NUMBER:	P47
	<b>BORROWING POLICY</b>	
	CATEGORY:	COUNCIL POLICY
	SP CLASSIFICATION:	GOVERNANCE
	LG ACT 2019 REF:	Part 10.3
	RESPONSIBLE OFFICER:	CHIEF EXECUTIVE OFFICER

### 1. PURPOSE:

The purpose of this policy is to:

- Ensure the sound management of council's existing and future debt.
- 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.
- Provide guidance as to the information that must be taken into consideration when council is considering the use of debt.
- Ensure funds are available as required to meet approved outlays.
- Ensure interest rates and other risks (e.g. liquidity risks and investment credit risks) are acknowledged and responsibly managed.
- Ensure the net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.
- Ensure outstanding debt is repaid as quickly as possible resulting in gross debt being minimised.

### 2. SCOPE:

This Policy applies to all employees and council members of Wagait Shire Council and extends to all borrowing activities of council and any controlled entities.

### 3. DEFINITIONS:

Borrowings	Any form of financial accommodation for example, an overdraft, a loan, hire purchase or instalment purchase agreement and the present value of future payments under a finance lease.
Minor transaction	A 'minor transaction' for the purposes of Section 197(2)(b) of the Local Government Act 2019 is an amount of \$50,000 or less for a council for a shire. This amount is a cumulative 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.
The Act	NT Local Government Act 2019

#### **4. POLICY:**

Local Government Ministerial Guideline #3 issued under Section 342 of the Local Government Act 2019 requires a council to have a Borrowing Policy in accordance with Part 10.3 (Council Borrowing) of the Act before any borrowing takes place.

Wagait Shire 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;
- 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.

##### **4.1 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 Wagait Shire 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 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 Wagait Shire 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.

##### **4.2 Debt term**

Wagait Shire Council will borrow new loans for a period that maximizes efficiency. Wagait Shire Council 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.

Maximum term for minor transactions (<\$50,000) will be for no more than 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.

### **4.3 Long -term financial viability**

Wagait Shire 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.

### **4.4 Type and source of borrowing**

- Internal borrowing from reserves may be considered as part of any borrowing strategy.
- Borrowings will only be in Australia dollars.
- Council shall raise all external borrowings at the most competitive rates available and from sources available as defined by legislation with an appropriate financial credit rating.

### **4.5 Approval for borrowing**

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 unless otherwise exempted.

#### **4.5.1 Overdraft**

Under Section 197(2)(a) of the Local Government Act 2019, the Minister's approval is not required for an advance overdraft if:

- a) The term of the advance does not exceed two 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.

#### **4.5.2 Minor Transaction**

Under Section 197(b) of the Local Government Act 2019, the Minister's approval is not required for a transaction classified as a minor transaction under guidelines issued by the Minister.

#### **4.5.3 Minister's Approval**

All borrowings, other than the above mentioned (4.5.1 and 4.5.2), require Minister's approval under Section 197 and 198 of the Local Government Act 2019. Minister's approval for borrowings is given only after consultation with the Treasurer. Wagait Shire Council may, with the Minister's approval, give security for a borrowing in the nature of a mortgage or charge over property. The Minister will consult with the Treasurer and will not approve a security over a property, if in the Minister's opinion, it is essential that the property be retained in the ownership of the council.

#### **4.5.4 Seeking Approval from Minister for Local Government:**

As per Section 9 of Guideline 3, to seek approval for borrowings, Wagait Shire Council should forward a letter, requesting to borrow money, to the Minister with the responsibility for Local Government.

A request under clause 9.1 must include:

- a) a formal cover letter setting out the request; and
- b) a business case; and
- c) if applicable – a request for approval to give security for a borrowing in the nature of a mortgage or charge over property; and
- d) the status of all other borrowings, including the following details for each borrowing:
  - (i) amount borrowed;
  - (ii) drawn and undrawn amount;
  - (iii) intention with regards to any undrawn amount;
  - (iv) plan to repay the borrowing; and
- e) any other documents that are required or later requested by the Minister.

The letter needs to be accompanied with a detailed business case including, but not limited to:

- a) a statement that explains why the council needs to borrow the money;
- b) the financial options available to the council, the council's preferred option and the reasons why that option is preferred;
- c) the maximum amount intended to be borrowed and the transaction costs associated with the intended borrowing;
- d) the council's financial capacity to service the debt;
- e) the repayment schedule showing principal and interest repayments;
- f) quotes or financial proposals from ADIs in support of borrowing parameters used in the repayment schedule;
- g) any security that the council intends to give in order to secure the borrowing;
- h) forward cash estimates that include the repayments for the borrowing;
- i) details on how the council will manage risks;
- j) evidence that future ongoing operations costs of the borrowing have been considered and accounted for in the council's future plans;
- k) details on the types of reports the council will use to monitor and review the borrowing.

#### **4.6. Reporting requirements**

The CEO 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

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

## 5. ASSOCIATED DOCUMENTS

P04 Council Member Code of Conduct  
P05 Council Staff Code of Conduct  
P09 Accounting and Policy Manual  
P29 Delegations Manual

## 6. REFERENCES AND LEGISLATION

Local Government Act 2019  
Local Government (General) Regulations 2021  
Australia Accounting Standards  
Ministerial Guideline 3

## 7. REVIEW HISTORY

<b>Date Approved:</b> 19/02/2019	<b>Approved By Council</b> Moved: Vice President Tom Dyer Seconded: Cr Neil White Vote: AIF	<b>Resolution No:</b> 2019/334	<b>Date for review:</b> 19/02/2022
<b>Date Approved:</b> 19/04/2022	<b>Approved By Council</b> Moved: Cr Peter Clee Seconded: President Neil White Vote: AIF	<b>Resolution No:</b> 2022/072	<b>Date for review:</b> Next term of council