

Borrowing Policy

FA08-CP Superseding CP128-1014 Borrowing Policy

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1. Purpose

This policy sets forth the particular circumstances under which MacDonnell Regional Council (MRC) will use external debt as a source of funds and principles to be applied in relation to borrowing.

2. Scope

This policy applies to the borrowing of money by MRC.

3. Objectives

- 3.1. To ensure the sound management of MRC's existing and future debt.
- 3.2. To clearly state the set of circumstances which should exist when MRC is considering the use of debt to fund projects and other capital purchases.
- 3.3. To provide guidance as to the information that must be taken into consideration when MRC is considering the use of debt.
- 3.4. To ensure compliance with legislative requirements.

4. Definitions

Borrowing	As derived from the <i>Local Government Act 2019 (LGA 19)</i> borrowing refers to a council borrows money if the council obtains any form of financial accommodation.
Debt servicing ratio	The debt servicing ratio measures available cash flow and the organisation's ability to pay its debt obligations.
Minor transaction	A borrowing transaction within a cumulative borrowing amount that is \$300,000 or less.

5. Statement

5.1. General

5.1.1. Borrowing is generally considered for the following purposes:

- a. fund the acquisition, construction, expansion or refurbishment of a major capital asset or other expansion in capital works, or;
- b. 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.

5.2. Considerations

5.2.1. Under Minister Guideline 3, MRC must exercise reasonable care and diligence that a prudent person would exercise when borrowing funds.

5.2.2. MRC must consider:

- a. The type of borrowing it wishes to take out- short, medium or long term.

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- b. The type of interest rate it wishes to consider for the borrowing (fixed, variable or a combination of both); and
- c. An appropriate financial institution
- d. If it will approve an overdraft facility for day-to-day transaction, and if so the amount of such a facility.
- e. Council to understand the risks involved in borrowing prior to entering a borrowing contract.
- f. Repayment schedule to reflect MRC's commitment to reducing interest incurred subject to overall budgetary constraints.
- g. 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 20 years;
- h. Maximum term for small loans (<\$1 million) to be set at five to 10 years with consideration given to whether such borrowings can be funded from existing cash reserves;
- i. Implicit costs of borrowing and opportunities forgone as a result.
- j. Where the borrowings are for commercial purposes, consideration will be given as to whether the return on the investment can service the debt redemption, including consideration of community service obligations;
- k. The affordability of proposal having regard to the council's long-term financial sustainability and MRC's ability to meet debt servicing obligations.

5.3. Borrowing parameters

5.3.1. MRC can proceed without Minister approval in the following circumstances:

- a. For minor transaction within a cumulative borrowings of up to \$300,000
- b. In relation to a credit card, the credit limit is taken to be the amount borrowed

5.3.2. MRC can also proceed without Minister approval in relation to an advance on overdraft if:

- a. The term 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 for the last financial year for which the council has an audited financial statement;

5.3.3. Upon receiving borrowed funds, this must be reflected in the next budget review under regulation 11 of the Local Government (General) Regulations 2021.

5.3.4. Any projected borrowing must be outlined in the regional plan and explain the purpose for which the funds will be used for.

5.4. Seeking Minister approval

5.4.1. MRC may approach the Minister in accordance with *Guideline 3* regarding a request for approval to borrow, if funds exceed the maximum allowable threshold outlined in this policy.

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5.5. Debt servicing ratio

- 5.5.1. Ensures that both current and future revenue and expenditure patterns of Council must be considered when establishing debt repayment levels in any year.
- 5.5.2. There must be an ability to fund from recurrent revenues (and not from borrowings) all ongoing recurrent expenditures associated with maintaining existing levels of service (including the value of the asset base) and current levels of debt service, before increased levels of debt are undertaken.
- 5.5.3. 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.
- 5.5.4. An increasing debt servicing ratio shall only coincide with the growth or expansion in the levels of asset infrastructure, technological upgrade or the capital intensification of programs which reduce other costs of these programs.
- 5.5.5. During periods when Council is primarily maintaining existing levels of asset infrastructure and services, the Debt Servicing Ratio should not increase, but be seen to fall over time in the interests of equity for future ratepayers.

5.6. Impact of internal borrowings

- 5.6.1. 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.

6. Policy Details

Replaces Policy No: (if applicable)	CP128-1014 Borrowing Policy
Responsible Directorate/Department:	Corporate Services - Finance
Approval Date:	30 April 2021
Minutes Reference and Resolution number:	OCM Item # 15.1 – OC2021-045
Review Cycle:	June 2022. Annually or after changes to relevant legislation or Council policy

7. Legislation and References

Related Legislation:	Local Government Act 2019 (NT) Local Government (General) Regulations 2021 NT Financial Management Act 1995
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	NT Financial Management Regulations 1995 NT Local Government (Accounting) Regulations 2008 NT Minister Guideline 3
Related Policies:	N/A
Associated Documents:	N/A

8. Version Control

Version No	Approval Date	Policy No.	Minutes reference and Resolution number (previous version)
1	30 April 2021	FA08-CP	N/A