



# Tiwi Islands Regional Council

**Title:** Borrowing Policy  
**Policy No:** 08  
**Adopted By:** Council  
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**Responsibility:** Chief Financial Officer  
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1	Resolution 4 of 31-03-16	31 March 2016	Doc ID: 179020
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## POLICY SUMMARY

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.

## Policy Objectives

- To ensure the sound management of Council's existing and future debt in the context of long term financial planning and financial sustainability
- To minimise the cost of borrowing
- Compliance with legislation including regulations and any Ministerial directions or guidelines
- To ensure funds are available as required to meet approved outlays
- To provide guidance as to the information that must be taken into consideration when Council is considering the use of debt.

## Legislative Framework

The Local Government Act 2008 (the Act) provides Councils the power to Borrow.

### Overdraft

Under Section 123 Local Government Act. NT the Minister's approval is not required for an advance on 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.



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## Minor Transaction

Under Section 123 Local Government Act. NT the Minister's approval is not required for a transaction classified as a minor transaction under guidelines issued by the Minister.

Under the guidelines Tiwi Islands Regional Council (TIRC) is a Schedule 1 council and a minor transaction therefore is an amount of \$200,000 or less. This is a total 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 (including all credit card transactions).

### 4.4.3 Minister's Approval

All borrowings, other than the above mentioned, require Minister's approval under Section 122, 123, 124 and 125 Local Government Act. NT.

Minister's approval for borrowings is given only after consultation with the Treasurer. TIRC 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 property, if in the Minister's opinion, it is essential that the property be retained in the ownership of the council.

The Minister has also issued mandatory Guidelines (29/06/2008) pursuant to S258 of the Local Government Act which require a Council to have a Borrowing Policy before any borrowing takes place.

## 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

Debt will not be used to cover recurrent operating expenses. Council generally prefers to minimise debt and financial risk. However debt funding is not precluded as a tool to assist management (within the context of financial prudence, long term planning and sustainability).

## 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
- that are within the contexts of affordability, risk and financial sustainability

Items to be funded by new borrowings will normally be identified in the Regional Council 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 Regional Council Plan and Budget is released for public comment. (This condition may be waived in circumstances where an emergency or urgent situation required the use of borrowings and those borrowings complied with all other policy and legal requirements such as Ministerial consent).

For external financial reporting purposes debt will be carried in the accounts in accordance with generally accepted accounting practice.

Council will decide whether the funding of capital expenditure should be by way of loan, (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 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)
- repayment of debt period to be no longer than the weighted average estimated useful lives of the related assets purchased or 20 years whichever is the lesser
- Repayment of borrowings to occur at least bi-annually
- Repayments will be met from project income or other untied income of Council
- Where borrowing from an existing cash revenue occurs in lieu of external financing, Council will consider the appropriateness of internal repayment 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 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)

## **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 5% (principal plus interest repayments as a percentage of total revenue)

## **Link to Strategic Plan**

The Council will maintain a Long Term Strategic Plan in order to demonstrate its long term financial viability and ability to service loan repayments.

## **Determination of the Appropriate Lending Institution**

Once a borrowing has been approved by Council, a quotation process will be conducted whereby appropriate lending institutions (ADIs) will be invited to submit written quotations on Council's borrowing requirements; Written quotations must include the:

- ✚ Interest rate
- ✚ Term of loan
- ✚ Repayment intervals (monthly, quarterly, etc.)
- ✚ Repayment instalment amount
- ✚ Any applicable fees
- ✚ Loan break costs



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Appropriate and acceptable documentation must be provided to Council by any prospective lender during the quotation/tender process.

## **Implementation and delegation**

The *Local Government Act* prohibits the Council delegating powers to officers for borrowing money.

## **Compliance and Monitoring**

A monthly reconciliation of all borrowings, including accrual of interest, will be completed by the Responsible Finance Officer and included in the Council's monthly report on Investments;

## **Evaluation and Review**

This Policy should be evaluated on the basis that there has been compliance with the Council's borrowing policy and legislation.