



Tiwi Islands Regional Council

Title: Borrowing Policy
Policy No: 08
Adopted By: Council
Next Review Date: March 2018
Responsibility: Chief Executive Officer
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Version	Decision Number	Adoption Date	History
1	Resolution 4 of 31-03-16	31 March 2016	Original document

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.

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.

Legislation, terminology and references

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

Other than for 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 of a 'minor nature' borrowing requires Ministerial approval (Section 123).



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Minor transactions to an aggregate total of \$ 200,000 or less do not require Ministerial approval.

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.

Implementation and delegation

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

Evaluation and Review

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