



Name:	FIN20 Borrowing Policy		
Type:	Council Policy		
Owner:	Chief Executive Officer		
Responsible Officer:	Finance Manager		
Approval Date:	25/07/2017	Next Review Date:	25/07/2019

## 1 Purpose

This policy has been developed to assist Elected Members and City of Palmerston officers with the understanding of the parameters and considerations required by Council in the decision to borrow funds to ensure the sound management of cash flow and future debt of the City of Palmerston.

## 2 Principles

City of Palmerston is committed to operating in a financially sustainable manner under the adopted and maintained Long-Term Financial Plan. This policy establishes a decision framework to ensure that funds are available to support approved plans and projects, whilst interest rate and other risks are acknowledged and responsibly managed.

## 3 Definitions

For the purposes of this Policy, the following definitions apply:

Term	Definition
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.

## 4 Policy Statement

### 4.1 Borrowing Purposes

City of Palmerston has a responsibility to ratepayers to employ the funds raised from borrowings in an efficient and productive manner. Adequate repayment of outstanding debt shall be spread equitably over time to be carried between present and future ratepayers.

Debt is not a productive or equitable use of City of Palmerston resources when used as a substitute for current revenue in maintaining or replacing the existing level of asset infrastructure, or for covering, whether directly or indirectly, the cost of interest on debt. Surplus funds that become available shall be utilised to reduce the term of existing loans where suitable.

Where City of Palmerston raises funds through borrowings (Internal or External), 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 the total approved loan amount, resulting in unexpended loan funds, City of Palmerston shall not draw any further funds for any other purpose from that loan.

## 4.2 Borrowing Considerations

The following factors will be considered before City of Palmerston is making an allowance for borrowings:

- Items that shall be funded through borrowings will be identified in the Municipal and Long-Term Financial Plan supported by the appropriate Annual Budget ensuring long-term financial sustainability of City of Palmerston. This condition may be waived where an emergency or urgent matter requires borrowings and those borrowings complied with all other policy conditions.
- Borrowings will be taken up with appropriate financial institutions and funds will be obtained on a competitive basis having regard for minimising the net interest costs associated under consideration of risks (e.g. liquidity risks and investment credit risks).
- The structure, terms and repayment of any proposed borrowings will be analysed to result in significant interest savings.
- The impact and alternatives to external borrowings, including alternative sources of revenue (e.g. special rates and charges), or borrowing from reserves will be identified.
- Where the borrowings are for commercial purposes City of Palmerston will analyse whether the return on the investment can service the debt redemption, including consideration of community service obligations.
- City of Palmerston will identify the affordability of proposals having regard to the long-term financial sustainability (including consideration of the cost of capital and the impact of the proposal on City of Palmerston's Net Financial Liabilities and Interest Cover ratios) and the ability of City of Palmerston to meet the proposed debt servicing obligations.

## 4.3 Borrowing Conditions

### 4.3.1 Type and source of borrowing

- Internal borrowing from reserves may be considered as part of any borrowing strategy
- Borrowings will only be in Australian dollars
- Borrowings will be sourced at the most competitive rate from sources available under legislation with an appropriate financial credit rating. Financial institutions need to be APRA listed.

### 4.3.2 Debt term

- Maximum term for all loans will 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 exceeding twenty years.
- Small borrowings (<\$3 million) will have a maximum term of ten years with consideration given to whether required funds can be sourced from existing cash reserves or through alternative income sources.
- External borrowings will be repaid over a period no longer than the physical life of the asset purchased as determined with ATO depreciation guidelines. Where the borrowings have not been repaid when the asset is sold, City of Palmerston will first apply the proceeds of the sale to the repayment of the loan source.
- Internal borrowings may be repaid and will not attract interest.
- Repayment of debt as quickly as possible and frequency of repayment at least bi-annually or more frequently subject to overall budgetary constraints, maximising efficiency and interest savings.

- City of Palmerston will review, at least annually, its forward projections for cash reserves, borrowings and major capital funding.

#### 4.3.3 Ratios

- City of Palmerston selected the Net Financial Liabilities Ratio and the Debt Service Ratio as the key indicators of City of Palmerston's ability to sustain its level of debt.
- The Net Financial Liabilities Ratio shows the net financial liabilities (total liabilities less current assets) as percentage of total operating income. The ratio should not exceed the maximum of -50%.
- The Debt Service Ratio illustrates the debt service charges (loan principal and interest payments) as percentage of revenue from continuing operations (excluding capital items, specific purpose grants and contributions). The ratio should not exceed the maximum of 5%.

### 4.4 **Approval for Borrowing**

#### 4.4.1 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.

#### 4.4.2 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 City of Palmerston 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 (4.4.1 and 4.4.2), 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. City of Palmerston 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.

#### 4.4.4 Seeking Approval from Minister for Local Government

To seek approval for borrowings, City of Palmerston should forward a letter requesting to borrow money, including a business case, to the Minister for Local Government.

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

- Details of the procurement including the assessment of its various options to fund the procurement.
- Forward cash estimates for at least three years and detailing the capacity and ability to service borrowing.
- A report on the current financial position and financial performance against its revenue and expenditure budget.

- Council minutes approving the procurement, approving the intention to borrow and approving the CEO to secure a loan.
- Planned financial agreements indicating the intended term of the borrowing, type of the principal and interest repayments, total cost of borrowing and conditions attaching to any securitisation. This information needs to be supported by a finance proposal from a lending institution.

#### 4.5 Reporting Requirements

The Chief Executive Officer will provide Council on a monthly basis a report detailing the following regarding external borrowing:

- Total borrowings
- Debt Service Ratio
- Net Financial Liabilities 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 term of the loan

For financial management purposes debt will be carried in the accounts in accordance with City of Palmerston's major functions with the ability to individually identify the loans.

Any internal borrowing and repayments which may have occurred in the financial year will be reported in the municipal plan and annual financial report.

## 5 Associated Documents

5.1 City of Palmerston Policies

## 6 References and Related Legislation

- 6.1 Northern Territory Local Government Act
- 6.2 Northern Territory Local Government (Administration) Regulations
- 6.3 Northern Territory Local Government (Accounting) Regulations
- 6.4 Australian Accounting Standards
- 6.5 Ministerial Guidelines
- 6.6 Local Government General Instructions