

5. Borrowings

1. Objectives

These guidelines establish a decision framework to help councils ensure that:

- (1) funds are available as required to support approved outlays;
- (2) interest rate and other risks (e.g. liquidity risks and investment credit risks) are acknowledged and responsibly managed;
- (3) the net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term; and
- (4) outstanding debt is repaid as quickly as possible and therefore that the gross level of debt held by the council at anytime is minimised.

2. Background

The *Local Government Act 2008* at Part 10.3, section 123(2) states that *“the Minister’s approval is not required for a transaction classified as a minor transaction under guidelines issued by the Minister.”*

3. Borrowing Policy

- (1) A council must have a policy with regard to borrowing before any borrowing takes place. The policy could include:
 - (a) the particular circumstances in which the Council will consider borrowing;
 - (b) an imperative to consider the impact of and alternatives to borrowings, including separate rates and charges:
 - (i) Where the borrowings are for commercial purposes, consideration should be given as to whether the return on the investment can service the debt redemption, including consideration of community service obligations.
 - (ii) Items council intends to acquire must have been included in the municipal/shire plan.
 - (iii) Consideration should be given to the structure of any proposed or current borrowings (the greater the funds required to service debt, the less funds are available for the other activities of the council) and to the term and nature of the borrowings (e.g. overdraft, fixed, inflation-linked or

variable interest rates, interest rate re-setting arrangements and short or long term borrowings).

(iv) Consideration should be given to using funds that are not immediately required to meet approved expenditure, to reduce the level of borrowings, including the use of internal cash reserves or investments.

(v) Consideration should be given to the affordability of proposals having regard to the council's long-term financial sustainability (including consideration of the cost of capital and the impact of the proposal on Council's Net Financial Liabilities and Interest Cover ratios).

(c) appropriate types of financial institutions;

(d) the maintenance of adequate records regarding debt;

(e) mandatory reporting requirements to the council. The reporting frequency should reflect the assessed level of risk and/or overall importance of the borrowings to Council. Minor transactions should be reported on monthly, advising debt levels on an aggregate basis by debt type.

4. Minor Transactions

(1) A "minor transaction" for the purposes of s123(2) is an amount of \$200,000 or less for a Schedule 1 council or \$50,000 or less for a Schedule 2 council. This amount is a total amount inclusive of all borrowings that have not been approved by the Minister.

(2) This means that a Schedule 1 council must not borrow in total more than \$200,000 without Ministerial approval and a Schedule 2 council must not borrow in total more than \$50,000 without Ministerial approval.

5. Credit Cards

A "minor transaction" includes all credit card transactions. If a credit card statement is not paid in full against a monthly statement, the council must be advised. In relation to credit cards, council should consider a "sweep payment" policy. The credit card facility limit is included in the "minor transaction" amount.

6. Australian Accounting Standards

These guidelines are to be read in conjunction with the Australian Accounting Standards.

7. Schedule 1 Councils

- Alice Springs Town Council
- Barkly Shire Council
- Central Desert Shire Council
- City of Palmerston
- Darwin City Council
- East Arnhem Shire Council
- Katherine Town Council
- Litchfield Council
- Macdonnell Shire Council
- Roper Gulf Shire Council
- Tiwi Islands Shire Council
- Victoria-Daly Shire Council
- West Arnhem Shire Council

8. Schedule 2 Councils

- Belyuen council
- Coomalie council
- Wagait Shire council