Council Policy – Draft Borrowings

Responsible Directorate	Corporate Services
Responsible Business Unit/s	Financial Services
Responsible Officer	Manager Finance
Affected Business Units	Financial Services

Objective

This Policy provides direction to management in relation to the decision-making framework surrounding a decision to use borrowings to finance activities. The objectives of this policy are to:

- Ensure the appropriate level of funds are available at the appropriate time to support its strategic objectives;
- Be financially responsible and prudent in financial matters ensuring all risks are considered in the decision-making process;
- Minimises the costs of borrowings;
- Ensures, where possible, the structure of the borrowing is appropriate for the nature of the assets being funded;
- Consider intergenerational issues as part of determining the most appropriate way to fund activities;
- Ensure the Shire's funding activities are in accordance with its legislative responsibilities;
- Establish the process for monitoring the level of borrowings and to ensure decisions in relation to the use of borrowings are made within a long-term financial context.

Scope

This Policy is intended to provide clear direction of the Shire's debt management strategies in relation to long term and short term borrowing activities for all new borrowings as well as existing borrowings.

Policy

Introduction

This Policy underpins the Shire's decision-making in the funding of the Shire's activities in the context of cash flow, budgeting, borrowings and investments. It is an important financial management tool in the funding of the Shire's expenditure. As such, this policy links closely to the Shire's overall Long Term Financial Plan (LTFP) in the context of:

- Strategic planning for the future of the Shire, covering short, medium and long term spending issues;

- Current and estimated future revenues and the ability to increase the revenue stream through either rates, user charges, additional grant funds or entrepreneurial activities;
- Inter-generational equity; and
- Current and future funding needs for both operating and capital expenditures.

Link to the Forward Financial Plan

Borrowings shall be considered as a mechanism to assist in achieving the strategic objectives of the Shire and the decision to borrow is made within the context of its implication on the long-term financial sustainability of the Shire.

The financial implications of the borrowings shall be included in the current LTFP.

Inter-Generational Equity

The Shire will seek to achieve intergenerational equity in its use of borrowings as a means of funding long lived assets to achieve an alignment of the cost of funding the asset(s) and the consumption of the benefit.

Types of Expenditures to be Funded by Long Term Borrowings

Long-term borrowings will generally be considered for the following purposes:

1. Commercial activities, providing the activity results in a positive cash inflow or positive net present value;
2. Community assets that:
    - provide intergenerational benefit; and
    - have an economic life of over 5 years; and
    - if a disposal of the asset is planned, all associated borrowings are extinguished from the proceeds; and
    - the construction or acquisition is planned within the current LTFP, corporate business plan and support the goals as outlined in the current Council Plan 2023-33; and
    - the term of the borrowing does not exceed the economic life of the funded asset.
3. Self-Supporting loans, providing adequate security is obtained to ensure, in the case of default, any outstanding liability is fully recovered; or
4. Refinancing existing borrowings; or
5. Natural disaster management; or
6. Projects that intensify the capital base for the purpose of reducing future operating costs.

Types of Expenditures not to be Funded by Long Term Borrowings

The Shire will not use borrowings to fund asset renewal which occurs on a frequent, regular or recurrent basis, such as:

- Road resurfacing;
- Plant and equipment changeover;
- IT network renewal; or

- Office equipment.

To ensure that the Shire does not become reliant on borrowings as a mechanism to fund operations, the Shire shall not use borrowings to fund operating activities except for:

- Overdraft;
- Credit Cards; or
- Operating Leases.

Consideration of Future Borrowings

Prior to any long-term borrowing being considered:

1. A business case of the proposed borrowing shall be undertaken for presentation to the Council for consideration; and
2. The business case shall:
   a. consider all alternative funding options; and
   b. contain a projection of the financial impact of the borrowings on:
      i. the levels of the ratio indicators set out in the policy; and
      ii. the overall financial circumstances of the Shire as set out in the current LTFP.

Future Borrowings will only proceed if:

1. The additional borrowings will not result in a breach of the borrowing level limitations as set in this policy; and
2. The Council considers the conclusion of the business case is that the borrowings are necessary to achieve the benefits as outlined in the analysis and the cost of borrowings is exceeded by the benefits; including consideration of the movement of construction acquisition costs of the project over the life compared to the interest rate over the same period.

Limitation on the Level of Borrowings

The level of borrowings shall be maintained within defined limits to ensure long-term financial sustainability. The Shire shall ensure that the amount of borrowings does not exceed the limits, so that debt servicing costs can be met on an ongoing basis.

The Shire will need to meet the following ratio benchmarks when considering borrowings:

- **Debt Service Cover Ratio (DSCR)** is a measurement of debt serviceability and an indicator of the Shire's ability to generate sufficient cash flow to cover debt repayments.
- The Shire must maintain a DSCR greater than or equal to 2 (based on DLGSC guidelines). **Total Debt Ratio (TDR)** is a measure of leverage and indicates the extent to which the total debt of a local government can be services by operating activities.

  The Shire must maintain a TDR of 50% of less (base upon WA Treasury Corp Guidelines)

Risk Minimisation

All treasury activities are to be undertaken in a manner that seeks to manage the risk to the Shire, in particular:

1. The decision on the type of borrowing, the term and interest rate arrangements shall take into account the purpose of the borrowing, the nature of the assets being funded, intergenerational equity and the cost of debt at the time of the borrowing, giving due regard to minimising exposure to interest rate movements; and
2. Council approval is required for all new borrowings.

Legislative Provisions

The legislative requirements relating to borrowings are summarised below:

Part six, division five of the *Local Government Act 1995* – Section 6.20 - provides that a Shire has the power to borrow. Section 6.21 – states the restrictions on borrowings.

The Shire may borrow money as part of adopting the annual budget in accordance with 6.2 of the *Local Government Act 1995.* Should the Shire propose to exercise the power to borrow and it has not been included in the annual budget, the Shire must follow the procedure as detailed in Sections 6.20 (2) of the *Local Government Act 1995*.

Definitions

Self-Supporting Loans means loans taken out by Shire the repayments of which are made by a third party e.g. local club and organisation or ratepayers through a specified area rate or service charge.

Economic Life means the estimated period over which an asset is expected to be economically usable by one or more users, with normal repairs and maintenance.

Intergenerational Equity means the concept of fairness or justice between generations.

Debt Service Cover Ratio (DSCR) is a measurement of debt serviceability and an indicator of the Shire's ability to generate sufficient cash flow to cover debt repayments.

DSCR = Annual Operating Surplus BEFORE interest and Depreciation / Annual Principal and Interest

Total Debt Ratio (TDR) is a measure of leverage and indicates the extent to which the total debt of a local government can be services by operating activities.

TDR = Total Local Government Debt / Operating Revenue

Related Documents

- Council Plan 2023-2033

Legislation / Local Law Requirements

- *Local Government Act 1995*

Amendment Record

<table>
<tr><td colspan="2">Relevant Delegations</td><td colspan="2">Nil. or
Refer to Register of Delegations and Sub-delegations (as amended)</td></tr>
<tr><td colspan="2"></td><td>Date</td><td>Resolution Number</td></tr>
<tr><td colspan="2">Council Adoption</td><td>26/05/2008</td><td>CGAM082/05/08</td></tr>
<tr><td>Version</td><td>Date</td><td>Resolution Number</td><td>Amendment Details</td></tr>
<tr><td>2</td><td>29/09/2015</td><td>OCM187/09/15</td><td></td></tr>
<tr><td>3</td><td>18/12/2017</td><td>OCM179/12/17</td><td></td></tr>
<tr><td>4</td><td>17/03/2025</td><td>OCM068/03/25</td><td>New template and updated definitions. Updated the benchmark ratios for borrowings to align with current DLGSC and WA Treasury guidelines, remove restrictions on interest only loans and updated definitions</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
</table>