

# Borrowing Management Policy

## Introduction

A borrowings policy provides direction to management in relation to the decision-making framework surrounding a decision to use borrowings to finance activities. The policy will ensure that all borrowing transactions are conducted in accordance with relevant statutory requirements as contained in the *Local Government Act 1995*; the *Local Government (Financial Management) Regulations 1996*; and the Australian Accounting Standards.

## Objective

The objectives of this policy are to ensure all borrowing management activities:

- (a) Are managed to ensure sustainable funding;
- (b) Minimise borrowing costs and the cost of debt management;
- (c) Manage short-term cash flows in an efficient and prudent manner;
- (d) Consider intergenerational issues as part of determining the most appropriate way to fund activities
- (e) Plan future cash flow needs to assist with borrowing decisions; and
- (f) Maintain sufficient liquidity to meet planned, or unplanned cash flow requirements.

## 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.

## Definitions

Term	Definition
Act	<i>Local Government Act 1995.</i>
CEO	Chief Executive Officer
Council	The local government, responsible for making decisions in formal meetings held under the auspices of Part 5 of the <i>Local Government Act 1995</i> and under the <i>Shire's Standing Orders Local Law 2008.</i>
DLGSC	Department of Local Government, Sport and Cultural Industries
General Funds	Has the meaning as set out in Section 6.21(4) of the <i>Local Government Act 1995</i> plus adding general interest revenue.
Intergenerational Equity	The equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life.

Term	Definition
Major Land Transactions	<p>A land transaction other than an exempt land transaction if the total value of —</p> <p>(a) the consideration under the transaction; and</p> <p>(b) anything done by the local government for achieving the purpose of the transaction,</p> <p>is more, or is worth more, than the amount prescribed for the purposes of this definition.</p> <p>Refer to <i>Local Government Act 1995</i> (s.3.59 Commercial enterprises by local governments)</p> <p>Refer to <i>Local Government (Financial Management) Regulations 1996</i> (r.27 and r.45);</p> <p>Refer to <i>Local Government (Functions and General) Regulations 1996</i> (Part 3 — Commercial enterprises by local governments (s. 3.59))</p>
Major Trading Undertakings	<p>A trading undertaking that —</p> <p>(a) in the last completed financial year, involved; or</p> <p>(b) in the current financial year or the financial year after the current financial year, is likely to involve,</p> <p>expenditure by the local government of more than the amount prescribed for the purposes of this definition, except an exempt trading undertaking.</p> <p>Refer to <i>Local Government Act 1995</i> (s.3.59 Commercial enterprises by local governments)</p> <p>Refer to <i>Local Government (Financial Management) Regulations 1996</i> (r.9, r.27, r.46 and r.47);</p> <p>Refer to <i>Local Government (Functions and General) Regulations 1996</i> (Part 3 — Commercial enterprises by local governments (s. 3.59))</p>
Personal guarantee	<p>A promise made by a guarantor that they will personally meet the obligations of another person or company if that person or company defaults to the creditor under the original, or primary, agreement.</p>
Real property	<p>Encompasses interests in land and fixtures or structures upon the land. Examples of real property means the land plus anything growing on it, attached to it or erected on it, including man-made objects, such as buildings, structures, roads, sewers, and fences, but excluding anything that may be removed from the land without injury to the land.</p>

<b>Term</b>	<b>Definition</b>
Regulations	<i>Local Government (Financial Management) Regulations 1996.</i>
Self-supporting loan	A loan taken out by the Shire on behalf of clubs or organisations who undertake to meet the capital, interest and loan guarantee payments.
Shire	The Shire of Toodyay.

## **Policy Statement**

The Shire will exercise its borrowing power in a fiscally responsible manner, to balance affordability with equitable distribution of costs between current and future generations of ratepayers.

### **1. Matching Revenue Sources to Service Debt**

Debt repayments must be:

- (a) Matched by investments of assets that produce, or have the potential to produce income that can service the debt; or
- (b) Matched by binding agreements entered into with external parties to service the debts (e.g.: self-supporting loans for community groups); or
- (c) Supported by identified specified revenue sources such as rates; fees and charges; or identified reductions in future operating expenditure sufficient to match the repayment schedule.

### **2. Acceptable Borrowing**

Borrowings will be considered to fund:

- (a) Short-term peak working capital requirements (e.g.: an overdraft or short-term fixed amounts);
- (b) Investment in Major Land Transactions (subject to Business Plan adoption);
- (c) Investments in Major Trading Undertakings (subject to Business Plan adoption);
- (d) Capital expenditure that provides a new intergenerational service, or renews an existing service; or
- (e) Transitional/bridging funding for projects or acquisitions.

The Shire will not use loans to fund the acquisition, replacement or renewal of assets that is expected to occur on an annual or similar basis at approximately the same level each year (e.g. recurrent capital works such as road resurfacing, plant replacement, information technology, and office equipment acquisitions).

This type of expenditure shall be funded through operating streams such as rates, fees and charges, and operating grants.

### **3. Exceptions to the Policy**

Borrowing in exception to this Policy would only occur in an emergency, or when considered necessary, on a case-by-case basis. In such cases, Council would consider the:

- (a) Special circumstances;
- (b) Nature of the borrowing;
- (c) Its repayment terms; and
- (d) The source of funding.

### **4. Debt Management**

#### **4.1 Debt Repayment Period**

The maximum debt repayment period will be determined by taking into account:

- (a) The expected useful lives of assets financed by the debt; and
- (b) Considerations relating to intergenerational equity.

#### **4.2 Debt Repayment levels**

Debt repayment levels (both interest and principal) will be determined by:

- (a) The need to maintain prudent and sustainable debt levels as established by the current local government Debt Service Ratio prescribed by the DLGSC;
- (b) Prevailing interest rates and possible future movements;
- (c) The need to re-negotiate borrowings at future periods;
- (d) The cash flow forecasts of any supporting asset used as a source of funds to service the debt; and
- (e) The transitional or bridging nature of the borrowing.

### **5. Borrowing Requirements**

Council will consider its forecast borrowing requirements as part of its Integrated Planning and Reporting and the adoption of the Annual Budget.

### **6. Borrowing Parameters**

The Shire shall assess its capacity to pay to ensure that the community is not burdened with unnecessary risk, prior to undertaking any borrowing.

The Shire will develop a business plan before any borrowing for major land transactions or trading undertakings which includes the assumptions used to assess the Shire's capacity to pay.

The Shire will report on its capacity to pay on an annual basis and publish its results in the annual report.

When assessing the borrowing ratios, consideration will be given to community goals outlined in the Strategic Community Plan; economic earnings potential of the asset being acquired or constructed; and all alternative options for undertaking the project without borrowing.

## 7. Restriction on Borrowing

Borrowings shall be undertaken in Australia and be in Australian dollars so as to ensure the Shire is not exposed to foreign currency risks.

In accordance with section 6.21 of the *Local Government Act 1995*, the only security that will be offered in return for the borrowings, shall be the general funds of the Shire.

Local government loan application guidelines published by the Western Australian Treasury Corporation (WATC) may limit the amount of borrowings that can be undertaken.

## 8. Interest Rate Risk

The Shire's preferred borrowing instrument is a fixed interest rate debenture that promotes interest rate predictability and a linkage with nominated revenue sources.

## 9. Institution Selection

In selecting the lender, the Shire will undertake a transparent process which tests the current credit market and displays good governance principles.

## 10. Self-Supporting Loans

Borrowing may only occur after the following:

- (a) A formal application from an incorporated body with evidence of a minuted request from the controlling Board/Committee; and
- (b) Sufficient financial information to determine the external community group's capacity to repay the borrowing operational cash flows; and
- (c) For requests over \$500,000, a formal Business Plan evidencing appropriate financial planning; and
- (d) Security for the total of the loan in the form of personal guarantees or real property.

## 11. Leases

The Shire will undertake a lease versus buy analysis for assets:

- (a) Which diminish in value quickly (for example: motor vehicles, IT equipment);
- (b) Where assets will be disposed of in a short timeframe; and
- (c) Where the lease option transfers responsibilities to the asset owner for disposal.

## Reference Information

- Corporate Credit Cards ([FIN11](#));
- Disposal of Property ([FIN12](#));
- Financial Governance ([FIN16](#));
- Long-Term Financial Planning ([FIN18](#));
- Authorised Signatories ([FIN2](#));
- Asset Management Policy ([FIN23](#));

- Western Australian Treasury Corporation

## Legislation

- Local Government Act 1995 (WA)
- Local Government (Financial Management) Regulations 1996.
- Local Government (Functions and General) Regulations 1996.

## Associated documents

Internal documents.

## Version control information

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