F17 Borrowing Management Policy

Introduction

This policy is intended to define the conditions under which the Shire of Toodyay will consider the use of borrowings to fund its activities.

A local government may borrow to perform the functions and exercise the powers conferred on it under the *Local Government Act 1995*.

This Policy should be read in conjunction with other financial management policies which contain the local government's overarching financial objectives.

Application

This policy applies to all long term and short term borrowings.

Policy Intent

The Shire will exercise its borrowing power in a financial responsible and prudent way so as to promote equity amongst current and future ratepayers.

1. Definitions

Intergenerational Equity means the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life.

General Funds has the meaning as set out in Section 6.21(4) of the *Local Government Act 1995* plus adding general interest revenue.

Community Business Activity means a Community Business Activity (CBA) is one which exhibits the following characteristics:

(a) There is an exchange of services or goods for consideration in a direct reciprocal relationship with the customer;

(b) There is potential for competition from external parties;

(c) The activity has an imbedded community/economic development benefit in addition to a business focus;

(d) The activity is not regulatory in nature but may be established in accordance with legislative obligation;

(e) The activity is capable of being outsourced in part or in full; and

(f) The activity may be subject to the requirements of the National Competition Policy.

Commercial Activities means in the context of a local government function is one which exhibits the following characteristics:

(a) There is an exchange of services or goods for consideration in a direct reciprocal relationship with the customer;

(b) There is an expectation of profit;

(c) There is, or potential for, competition from external parties;

(d) The activity does not emanate from a regulatory power; and

(e) The function may be subject to the requirements of the National Competition Policy.

2. Overview

The following is a general description of the Shire's Policy objectives with respect to borrowing management:

(a) Prudently manage the Council's borrowing to ensure sustainable funding;

(b) Minimise borrowing costs;

(c) Manage short-term cash flows in an efficient and prudent manner;

(d) Maintain market confidence in the local government's credit worthiness and financial stability;

(e) Plan future cash flow needs to assist with borrowing decisions; and

(f) Maintain sufficient liquidity to meet planned and un-planned cash flow needs.

3. Matching Revenue Sources to Service Debt

To achieve prudent use of the Shire's borrowing powers, 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 or fees and charges or identified reductions in future operating expenditure) sufficient to match the repayment schedule.

4. Purpose of Borrowing

Borrowing is acceptable to fund:

(a) Short-term peak working capital requirements (overdraft or short-term fixed amounts);

(b) Investment in Major Land Transactions (Post Business Plan adoption);

(c) Investments in Major Trading Undertakings (Post Business Plan adoption);

(d) Investment in a Community Business Activity;

(e) Capital expenditure that provides a new intergenerational service or renews an existing service; or

(f) Transitional/bridging funding for projects or acquisitions.

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

(a) Special circumstances;

(b) Nature of the borrowing;

(c) Its repayment terms; and

(d) Source of funding.

The Shire will not use loans to fund acquisition, replacement or renewal of assets that is expected to occur on an annual or similar basis at approximately the same level each year i.e. recurrent capital works such as road resurfacing, plant replacement, information technology, office equipment acquisitions. This type of expenditure shall be funded through operating streams such as rates, fees and charges, and operating grants.

5. Term of Debt

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.

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

(a) The need to maintain prudent and sustainable debt levels;

(b) Comparison with the borrowing levels of Western Australian Local Governments with similar economic profiles;

(c) Prevailing interest rates and possible future movements;

(d) The need to re-negotiate borrowings at future periods;

(e) The cash flow forecasts of any supporting asset used as a source of funds to service the debt; and

(f) The transitional or bridging nature of the borrowing.

The Council will consider its forecast borrowing requirements as part of its:

(a) Strategic Community Plan;

(b) Long-Term Financial Plan;

(c) Asset Management Plan; and

(d) The adoption of the Annual Budget.

6. Borrowing Parameters

Prior to undertaking any borrowing, the Shire shall assess its capacity to pay to ensure that the community is not burdened with unnecessary risk. 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 and all alternative options for undertaking the project without borrowing. When assessing the borrowing ratios, consideration will be given to the economic earnings potential of the asset being acquired or constructed.

7. Restriction on Borrowing

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 Australian Accounting Standards, whilst minimising the cost of the debt.

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

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

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.

8. Interest Rate Risk

To promote interest rate predictability and a linkage with nominated revenue sources, the Shire's preferred borrowing instrument is a fixed interest rate debenture. Within any total loan portfolio, the maximum amount of loans with a variable floating interest rate is not to exceed 15%.

9. Institution Selection

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

10. Self-Supporting Loans

Borrowing in relation to a proposed self-supporting loan is to 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

Leasing as a funding option forms part of Council's overall borrowing strategy.

Council 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

Related Legislation

Local Government Act 1995 (WA)
Local Government (Financial Management) Regulations 1996
Local government loan application guidelines published by the Western Australian Treasury Corporation

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