



Shire of **Ngaanyatjaraku**
ON A JOURNEY

Council Policy

Policy 2.4 – Borrowing Management

Table of Contents

Policy Objective	3
Background	3
Definitions	3
Overview	4
Matching Revenue Sources to Debt	4
Purpose of Borrowing	4
Term of Debt	5
Borrowing Parameters	5
Restrictions on Borrowings	5
Interest Rate Risk	5
Institution Selection	6
Self-Supporting Loans	6
Policy History	6
Amendments to this Policy	6
History	6
Previous Policy	6



Council Policy 2.4 – Borrowing Management

Policy Objective

To define the conditions under which to the Shire will consider the use of borrowings to fund its activities.

Background

This Borrowing Management Policy should be read in conjunction with other Financial Management Policies, which contains the local government’s overarching financial objectives.

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

Definitions

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

General Revenue: Has the meaning as set out in Section 6.21(4) of the *Local Government Act 1995*.

Community Business Activity: 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 a 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 National Competition Policy.

Commercial Activities: 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 a profit;
- c) There is, or potential for, competition from external parties. The activity does not emanate from a regulatory power; and
- d) The function may be subject to the requirements of National Competition Policy.

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. Minimise borrowing costs;
- b) Manage short-term cash flows in an efficient and prudent manner;
- c) Maintain market confidence in the local government's creditworthiness and financial stability;
- d) Plan future cash flow needs to assist with borrowing decisions; and
- e) Maintain sufficient liquidity to meet planned and un-planned cash flow needs.

Matching Revenue Sources to Debt

To achieve prudent use of the Shire's borrowing powers, debt repayments must be:

- a) matched by investments or 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 specific revenue sources (e.g. Specified Area Rates) or Supported by specific general revenue sources (such as rates or fees and charges) or identified reductions in future operating expenditure sufficient to match the repayment schedule.

Purpose of Borrowing

In general, the Shire will not borrow to fund operating expenditure.

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) Investment in Major Trading Undertakings (Post Business Plan adoption).;
- d) Investment in a Community Business Activities;
- e) Capital expenditure that provides a new intergenerational service or renews an existing service; and
- 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) the source of funding.

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 repayments 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 WA 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) plan for the future;
- b) The Shire's long term financial plan; and
- c) The adoption of the annual budget.

Borrowing Parameters

To help ensure that the Shire achieves the objectives of the borrowing management policy the following outstanding borrowing parameters will prevail:

Measurement ratio: (Total principal outstanding less self-supporting loan principal)

General Funds (s.6.21 Act)

Restrictions on Borrowings

To be prudent with borrowing powers, the Shire will restrict its 'own purpose' borrowings to a measurement ratio of 0.80

A measurement ratio exceeding 0.80 may be specifically approved by a resolution of the Council providing the amount above the threshold relates to a community business or commercial activity (as defined) that generate positive cash flows sufficient to offset the debt repayments without a negative impact upon general revenue.

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%.

Institution Selection

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

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 groups 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.

Policy History

Amendments to this Policy

Amendments to this policy require a simple majority decision of Council.

History

Policy adopted: 24 June 2020

Policy reviewed: 28 June 2023

Previous Policy

N/A