

Introduction

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

Purpose

To provide guidance for the prudent borrowing of funds to ensure:

- Transparent and accountable decision-making by the Shire of Capel.
- The Shire's financial resources are appropriately managed.

Policy statement

While the Shire's preferred position is to minimise debt, should that not be practical, the Shire recognises that it may be necessary to borrow funds for the acquisition or construction of assets. In these cases, the following principles for loan borrowings apply:

- New borrowing for capital works purposes should only occur when the Council deems the annual debt service expense to be affordable in the context of the Annual Budget process and the Council's Long Term Financial Planning capacity.
- Borrowings will only be considered:
 - o To fund new or major upgrades to Shire assets or strategic land acquisitions.
 - o If the debt interest and principal is structured to be payable upon maturity, the Shire has the capacity to repay the interest on the debt and accumulate cash reserves that will ensure full principal repayment upon loan maturity.
- The Council to maintain a debt service cover ratio in alignment with the benchmark of the Department of Local Government, Sport and Cultural Industries.
- New borrowings will only be considered where a comprehensive business case has been approved by the Council. Business cases can be presented to the Council through the Annual Budget adoption process or on an individual application basis.

Annual Loan Borrowing Program

As part of the Annual Budget process, the Council shall initially determine its proposed loan borrowing program and disclose any proposed new money borrowings.

The Chief Executive Officer (CEO) has the authority to accept loan offers on behalf of the Council subject to the borrowing amount being previously approved by the Council and the requirements of this policy being adhered to.

Internal Loans

An internal loan from reserve funds is a funding option that can be considered by the Council to finance projects in lieu of borrowing externally, however the same principles will apply.

Exceptions to Borrowing

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) Repayment terms.
- (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.

Term of Debt

The maximum debt repayment period will be determined by:

- (a) The expected useful lives of assets financed by the debt.
- (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.
- (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) Corporate Business Plan.
- (b) Long-Term Financial Plan.
- (c) Asset Management Plan.
- (d) Adoption of the Annual Budget.

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 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 number 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.

Institution Selection

In selecting the lender, the Shire will undertake a transparent process which tests the current credit market and displays good governance principals as regulated Local Government (Financial Management) Regulations 1996.

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.

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.
- Australian Accounting Standards.

Related Documentation

For Self-Supporting Loans – please refer to the Shire Policy Manual.

Policy Stakeholders

All Councillors, CEO, Directors, Managers and Coordinators will need to be aware of this policy.

Application

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

The policy is to be reviewed as part of the Annual Budget and Long Term Financial Planning processes, or as required in the event of legislative changes.

Procedure

Department:	Corporate	Next review:	January 2024
Reviewer:	Director Community & Corporate	Legislation:	Local Government Act 1995 (WA). Local Government (Financial Management) Regulations 1996. Local Government Loan Application Guidelines published by the Western Australian Treasury Corporation.

Adopted: Minute OC012/2022
19.01.22

Delegation:

Amended:

Risk:

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