POLICY NO: F/FM/6 **FORMER POLICY NO:**

FINANCIAL MANAGEMENT – BORROWING PROGRAM AND ASSET FINANCING

DIVISION	BUSINESS UNIT	RESPONSIBILITY AREA
Corporate Services	Finance	Financial Management

OBJECTIVE:

To recognise the degree to which borrowing is acceptable, determine in what circumstances borrowing should and should not be utilised, consider funding strategies for major assets and categories of services and satisfy the Western Australian Treasury Corporation that any new borrowings will not place financial stress on the Council.

POLICY:

1. Long-term borrowing will not be used to finance current operations or normal maintenance.
2. The Shire will strive to achieve a high reliance on pay-as-you-go financing for its capital improvements.
3. All debt issued, including by lease purchase methods, will be repaid within a period not to exceed the expected useful lives of the improvements financed by the debt.
4. The Council may consider borrowing proposals on their merits from time to time and give favourable consideration to borrowing money for the acquisition or construction of an asset under the following circumstances:
    a) Where the asset to be acquired is a new addition to the Council's asset base and the project contributes to the achievement of an identified strategic objective; or
    b) Where the asset replaces an existing asset and has a useful life of greater than 10 years; or
    c) Where the asset is required urgently and unexpectedly or a significant community need for the asset has been identified; and
    d) One of the following funding conditions exists:
        i) The project will reduce operating costs to an extent sufficient to cover the cost of the project and generate further savings to the Shire;
        ii) The borrowing cost could be supported by additional revenue over the effective life of the project;
        iii) All alternative options for undertaking the project without borrowing have been investigated and proven less advantageous to the Council;

iv) The income stream from the asset to be acquired or constructed exceeds the cost of borrowing over the life of that asset;

v) Repayments will be met by a third party such as self supporting loans and the financial stability of that party meets the criteria as set out in the Self Supporting Loans Policy;

vi) To save for the acquisition or construction will result in the actual cost being greater than the cost of borrowing the money and acquiring it today; or

vii) To delay a project would jeopardise it due to grant funding restrictions or opportunities.

5. Where surplus funds are available, the decision to repay or reduce borrowings should be made based on the facts available at the time giving due regard to minimising the overall cost to the Council.

6. The Council will, with regard to setting its annual budget and making decisions on borrowings from external agencies, aim to maintain the following financial ratios within the limits stated:

a) Debt Service Cover Ratio – More than 3.0

This ratio means:

$$\frac{\text{Annual operating surplus before interest and depreciation}}{\text{Principal and interest}}$$

b) Net Debt Ratio – Less than 50%

This ratio means:

$$\frac{\text{Gross debt less cash and cash equivalents}}{\text{Available operating revenue}}$$

ADOPTED: 23 JANUARY 2007

LAST REVIEWED: 6 NOVEMBER 2018