1.34 Long-Term Borrowing Policy

Policy Owner	Executive Director Corporate & Commercial Services
Responsible Officer	Manager Finance
Date of Approval	13/04/2013
Amended/Revised	25/06/2024

Objective

To affirm that the preferred policy position of Council is to minimise debt, and should that not be practicable, to set out the circumstances in which Council may consider Borrowings or Other Financial Accommodation to fund the acquisition, renewal or construction of specified assets and to provide guidance as to the appropriate terms of any such borrowing.

Scope

This Policy relates to forms of financing which create a liability for future repayment. It does not include those financing methods shown in Excluded Borrowings below, or the funding of asset purchases via ongoing operational funding mechanisms such as rates, fees and charges and grants.

Policy Statement

Whilst the preferred policy position of the City of Albany (City) is to minimise debt (except for Self-Supporting loans), the City recognises that the acquisition, renewal or construction of assets, it may require the prudent use of loan borrowings, debt instruments or other finance or capital raising methods from time to time. The following principles are to be applied when considering undertaking borrowings or other asset financing.

A. Operating Expenditure:

The City will not borrow money (other than by way of Excluded Borrowings) to fund operating expenditure. This type of expenditure should be funded through operating revenue streams such as rates, fees and charges or operating grants

B. Recurrent Capital Expenditure:

The City will not borrow money or obtain debt finance (other than by way of Excluded Borrowings) 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 i.e. recurrent capital works. Examples of this type of expenditure are road resurfacing, plant replacement, information technology and office equipment acquisitions and replacement. This type of expenditure shall be funded through operating revenue streams such as rates and fees and charges.

C. Borrowing Term:

The term of the Borrowing or Other Financial Accommodation shall be set having due regard to the Economic Life of the asset being acquired or constructed. Should the City decide to borrow funds, the term of the borrowing shall generally not be greater than half of the Economic Life of the asset being acquired or constructed. This is to enable the City to use the remaining economic half-life to set sufficient funds aside in a sinking or reserve fund in order to renew or replace that asset, should that be required, at the end of its Economic Life. The City will not generally borrow funds (other than by way of Excluded Borrowings) to acquire an asset that has an economic life of less than five (5) years.

D. Borrowing Ratios:

Prior to undertaking any borrowing the City shall assess its capacity to pay, to ensure that the community is not burdened with unnecessary risk. The City will report on its capacity to pay on an annual basis and publish the results in its annual report. When assessing the borrowing ratios, consideration will be given to the economic earnings potential of the asset being acquired or constructed. The City will not borrow funds when such borrowing does not meet the following financial ratio requirements:

- The Debt Service Cover Ratio of is outside of the band between 200% and 500% (DLGSC Guideline band is between 200% and 500%) projected over the next 5 years. This is a statutory ratio that is required to be reported in the Annual Financial Accounts. This ratio indicates the City's ability to service debt. Lower the ratio, higher the risk that the City will be unable to service debt repayments.
- The Net Debt (Gross Debt less cash assets) to Operating Revenue Ratio exceeds 45% (WA Treasury Corp Guideline is 50%) projected over the next 5 years. This is a management ratio used by WATC. This ratio indicates the extent to which net debt could be met by its operating revenue.

E. Borrowing Considerations:

The Council will give consideration to borrowing money for the acquisition or construction of an asset where:

- The asset to be acquired is a new addition to the City's asset base or replaces an existing asset with one that is significantly larger and has an economic life of greater than 10 years; or
- All alternative options for undertaking the project without borrowing, have been investigated and proven less advantageous to the City; or
- The net income stream and cost savings can be taken into account from the asset to be acquired or constructed exceeds the cost of borrowing over the life of that asset; or
- Repayments will be met by a third party e.g. self-supporting loans; or
- The index of the cost of acquisition or construction is increasing at a rate that exceeds the cost of borrowing i.e. to "save" for the acquisition or construction will result in the actual cost being greater than the cost of borrowing the money and acquiring or constructing the asset today.
- As a general rule the benefits received (cost savings or income earned) from undertaking the borrowing should be greater, over the life of the borrowing, than the costs of borrowing.
- Proper and detailed analysis of the costs and benefits of the borrowing has been undertaken and documented.

Legislative and Strategic Context

Legislation covering reserves funds includes *Local Government (Financial Management) Regulations 1996 – Regulation 38 (1) (f).*

This policy relates to the following elements of the City of Albany Strategic Community Plan:

- **Pillar: Leadership**. *Outcome: Strong workplace culture and performance.*

Review Position and Date

This policy is to be reviewed by the document owner every two years.

Associated Documents

Related documents that have a bearing on this policy and that may be useful reference material for users of this policy, include:

- *Local Government (Financial Management) Regulations 1996*
- Investment of Surplus Funds Policy