

**STRATEGIC OUTCOME SUPPORTED: 11 - Strong, visionary leadership**

## **1 Objective**

This Debt Policy document sets out the manner in which the Shire of Donnybrook Balingup (the “Shire”) may establish and manage a debt portfolio. The objective of this Debt Policy is to ensure the sound management of the Shire’s existing and future debt.

This Debt Policy outlines the Shire’s debt strategy and provides for the responsible financial management of loan funding by ensuring that the level of indebtedness is maintained within acceptable limits and is managed appropriately.

## **2 Compliance**

The Shire will enter into contractual funding arrangements only where such activities and arrangements comply with the relevant legislative and non-legislative requirements.

Adherence to this Debt Policy will be reviewed annually.

### **2.1 Legislation**

Western Australian legislation relative to the Shire includes, but is not limited to  
The Local Government Act 1995 (as amended)  
Local Government (Financial Management) Regulations 1996 (as amended)  
Trustees Act 1962 (as amended)

### **2.2 Non-Legislative Requirements**

In addition, borrowing activities and contractual funding arrangements entered into by the Authority must also comply with the following:

- Australian Accounting Standards

### **2.3 Lending Agreements**

Any and all borrowing activities and contractual funding arrangements entered into by the Shire with Western Australian Treasury Corporation (or another party) must be consistent with:

- The Shire’s Master Lending Agreement with the Western Australian Treasury Corporation
- The particular loan repayment schedule with the Western Australian Treasury Corporation relevant to the specific loan.

## **3 Policy Objectives**

# COUNCIL POLICY FIN/CP-3 DEBT



The purpose of this Debt Policy is to establish a set of principles for the efficient management of the Shire's existing and future debt.

This includes prudent interest rate risk management so that an appropriately structured and managed portfolio of debt funding may contribute to the growth and protection of the long-term economic value of the Shire.

## **3.1 Minimise Risk**

In general, the Shire is risk averse and seeks to reasonably minimise risk in all aspects of its operations.

## **3.2 Minimise interest costs**

Specifically, the Shire seeks to minimise interest costs without introducing undue volatility in annual interest costs.

The Council notes that there is a trade-off between minimising risk in the portfolio and minimising the interest costs of the portfolio.

## **4 Policies**

### **4.1 Enactment**

The Debt Policy will become effective immediately after approval by Council.

As per the provision of Section 2.7(2) of the Local Government Act 1995, once enacted, the Debt Policy may not be altered, in whole or in part, except by resolution of the Council.

### **4.2 Conditions for Debt Raising**

- Debt funding may be used for capital works and the purchase of development of assets and infrastructure assets.
- Debt funding may not be used to finance operating activities or recurrent expenditure.
- Before borrowing funds, the Shire would generally consider using existing surplus funds in the first instance.

### **4.3 Lending Counterparties**

- In its evaluation of borrowing proposals, the Authority will consider counterparty risk, that is, the risk that the lender fails to perform in accordance with its contractual obligations under the terms of the loan.
- The Shire will seek to reasonably minimise counterparty risk from lenders.

- The Shire recognises that the Western Australian State Government has established a Central Borrowing Authority, the Western Australian Treasury Corporation (WATC) for the purpose of providing funding to government including Local Government Authorities.
- The Shire recognises the advantages of obtaining funding through a Central Borrowing Authority, such as WATC, which has very low counterparty risk and is able to provide significant benefits to its clients through its ability to access highly liquid funds in large volumes on behalf of its clients, and therefore provide lower-cost funding than is generally available from other lenders.
- Contractual lending arrangements between the Shire and WATC may be in any form recommended by WATC and approved by the Council.
- The Shire, at its discretion, may seek quotes from lenders other than WATC, and may proceed with funding in cases where another lender is able to provide lower-cost funding, and where the Shire believes that the degree of counterparty risk is acceptable.

#### **4.4 Borrowing Arrangements**

- When entering into borrowing arrangements, the Shire will seek to minimise interest costs over the medium and long-term without introducing undue volatility in annual interest costs, and subject to an acceptable degree of counterparty risk.
- Borrowing arrangements may be entered into on a project-by-project basis, with particular loans assigned to particular projects.
- Each project-specific loan will be entered into with the aim of obtaining the most competitive interest cost for the loan, subject to the preferred debt structure as determined by the Shire.
- Where borrowings are required and approved as per the provisions of Section 6.20 and Section 6.21 of the Local Government Act 1995, only a person or persons duly authorised by Council may give instructions in relation to drawing down loan funds.
- Furthermore, a Delegated Authority Register maintained by the Shire in accordance with the Local Government Act will contain a list of person(s) duly authorised by Council to sign documents in relation to the drawing down of loan funds.
- Documentation of each specific loan will be in accordance with a lending agreement or other appropriate loan documentation that has been approved by the Council.

#### **4.5 Structure of Borrowings**

The Shire's borrowings will be appropriately structured to constrain risk and will be consistent with the following parameters:

- Council will consider the appropriateness of the various types of debt products available.
- The Shire will not seek to position any of the borrowings in an attempt to gain from anticipated in the shape or level of the yield curve.
- The tenor of a loan will not be greater than the expected useful life of the asset being funded by the loan. The intention is to maintain a balance within the debt portfolio such that the value of the liabilities does not exceed the value of the assets.

- In order to eliminate currency risk, all debt will be denominated in Australian dollars and no debt will be raised in foreign currencies.

### **4.6 Repayments**

- The Shire intends to maintain a repayment schedule consistent with 'principal and interest' repayment calculations.
- The repayment schedules for new and existing borrowings will be set on an individual basis as determined by the nature of the project, and other considerations such as:
- Expected revenue streams in future year; and
- Anticipated capital works and asset acquisition programs in future years.
- Loan repayments will be made in a regular schedule, such as quarterly, semi-annually or otherwise as determined by the Shire.

### **4.7 Breaches**

- Where any breach of, or divergence from the Debt Policy occurs, the CEO and Manager Finance and Administration of the Shire are to be advised immediately, and the Council is to be advised no later than the next Council Meeting, or earlier at the CEO's discretion.
- Advice to the relevant parties will outline what will be done, or what has been done, to rectify the breach or will seek approval for continuance of the breach.
- In the first instance, temporary approval may be provided by the CEO and the Manager Finance and Administration pending subsequent ratification by Council resolution.

## **5 CONTROLS**

### **5.1 Review and Monitoring**

- The Shire's funding requirements and funding strategy will be periodically reviewed by the Council.
- The Council agenda for each relevant Council Meeting will contain a report with advice to the Council as to the current debt position. In providing this report, the Shire will monitor the performance of the debt portfolio and periodically reassess financing options and portfolio structure to determine the relative risks and benefits and report outcomes of this activity to Council.

### **5.2 Schedules of Planned Debt**

- The Shire's planning for anticipated borrowing requirements over future years will be consistent with the Department of Local Government's requirements for a 10-year financial plan.

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- The Council will review the Authority's anticipated borrowing requirements and relevant sustainability ratios in the preparation of each financial year's budget and for the period covered by the 10-year financial plan.

## 6 Sustainability Ratios

The Council will, as a minimum, monitor the sustainability ratios prescribed by the *Local Government (Financial Management) Regulations 1996* as an input to its assessment of the financial management of its borrowings.

### POLICY VERSION

<b>Related Policies:</b>	Nil		
<b>Related Procedure:</b>	Nil		
<b>Responsible Department:</b>	Finance		
<b>Reviewer:</b>	Director Corporate and Community		
<b>Review Frequency:</b>	Annual	<b>Next Due:</b>	2022
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