

Policy P604 Use of Debt as a Funding Option

Responsible Business Unit/s	Financial Services
Responsible Officer	Director Corporate Services and Manager Finance
Affected Business Unit/s	Financial Services

Policy Objectives

Delivery of Local Government services and major capital initiatives often results in a number of meritorious projects competing for limited financial resources. In order to maximise community benefit whilst exercising responsible financial management, the budget process should give proper consideration to accessing the most advantageous blend of funding sources (rates, grants, borrowings etc). In the current economic climate fixed rate borrowings represent an attractive and responsible funding source.

Policy Scope

This Policy will affect all employees and the community of the City of South Perth.

Policy Statement

The use of borrowing is to be explored as a legitimate funding alternative in the development of financial strategies for City initiatives (subject to the principles of responsible financial management).

When determining funding options in the development of the annual budget, regard is to be had to the impact on relevant financial ratios of any proposed borrowings.

Borrowings are to be undertaken only where the loan interest rate is known with certainty and can be fixed for the term of the loan. Borrowed funds are only to be included in the overall funding package to incorporate significant projects of a capital nature and are not to be used to make up shortfalls in operational funding.

The maximum upper limit for City borrowings (excluding self supporting loans which are fully serviced by the beneficiary organisations) is set at \$10 million. Annual Debt Service costs (repayment of principal and interest) can not exceed 10% of total rates revenue without approval from Council. For the purposes of this policy, loans associated with the Collier Park Golf Course are treated as self supporting loans as they are serviced from golf course operating funds.

Terms of borrowings are to be determined relative to the expected useful life of the asset / benefit resulting from the utilisation of the borrowed funds.

All proposals involving the use of borrowed funds are to be subjected to critical financial analysis and a report submitted to Council for final endorsement prior to undertaking the borrowing. Presentation of the borrowing proposal through the budget process is considered to achieve this reporting obligation.

All borrowings are to be undertaken in strict accordance with the statutory requirements as detailed in Section 6.20 of the *Local Government Act 1995*.

Legislation / Local Law Requirements

Local Government Act 1995

Other Relevant Policies / Key Documents

City of South Perth Strategic Plan