

## FP032 – Debt Service Coverage Ratio

### 1. Intention

To meet the minimum levels for this ratio, as set by the Department of Local Government, Sport & Cultural Industries.

### 2. Scope

This policy applies to Elected Members and employees of the Shire of Waroona.

### 3. Statement

This ratio is calculated by dividing the Net Surplus [with Interest Expenses & Depreciation Expenses not taken into account], by the total of Loan Repayments (both Principal & Interest) for the year.

The Department of Local Government, Sport & Cultural Industries has regulated that all local government authorities will develop and implement an Integrated Planning & Reporting Framework (IP&RF) compliant with the standards set out in the 'Integrated Planning and Reporting Advisory Standards'. The standards require Council to have adopted a number of 'Financial Management Policies', and for details of these to be included in the narrative section of the 10 year Long Term Financial Plan, and references to such policies are expected to be made in the 4 year Corporate Business Plan.

#### Department of Local Government, Sport & Cultural Industries Guide

*The expectation is that "The Standard is not met if this ratio is any value lower than 2. Basic Standard is met if the ratio is greater than or equal to 2. Advanced standard is met at a higher level if this ratio is greater than 5". (IP&RAS, 2011, p6).*

Council's Debt Service Coverage Ratio should be such that it exceeds a factor of 2, with Non-Operating (Capital) Grants, Subsidises & Contributions & any tied operating grants excluded. This is to keep Council's annual Loan Repayments commitments at manageable levels.

### 4. Legislative and Strategic Context

The *Local Government Act 1995* and the associated subsidiary legislation provide the broad framework within which this policy operates.

### 5. Review

This policy is to be reviewed as required.

### 6. Associated Documents

Other documents that have an association to this policy and that may be useful reference material are:

- Department of Local Government, Sport and Cultural Industries: Operational Guidelines No. 18 – Financial Ratios.

<b>Division</b>	Finance
<b>Policy Number</b>	FP032

<b>Contact Officer</b>		Director Corporate Services			
<b>Related Legislation</b>		Local Government Act 1995 Local Government (Financial Management) Regulations 1996			
<b>Related Shire Documents</b>		Annual Report			
<b>Risk Rating</b>	Medium	<b>Review Frequency</b>	As required	<b>Next Review</b>	When required
<b>Date Adopted</b>		25/06/2013		OCM13/06/048	

<b>Amendments</b>		
<b>Date</b>	<b>Details of Amendment</b>	<b>Reference</b>
18/12/2018	Updated as part of major review.	OCM18/12/126
22/06/2021	Updated as part of major review and reformatted.	OCM21/06/071
<b>Previous Policies</b>		
FIN031 – Debt Service Coverage Ratio		
1.35 – Debt Service Coverage Ratio		