



# Borrowing Policy

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### 1. PURPOSE

- 1.1 The Borrowing Policy provides the appropriate parameters for Council to undertake borrowings without compromising the application of sound fiscal management principles. The policy allows Council the flexibility to respond to funding requirements while minimising risk.
- 1.2 The Borrowing Policy ensures that Council has a sound financial framework on which to:
  - 1.2.1 Undertake borrowings
  - 1.2.2 Manage its loan portfolio; and
  - 1.2.3 Adhere to the provisions of the Local Government Act 2020 (the Act).
- 1.3 Policy Objectives
  - 1.3.1 To provide an alternative financing option for:
    - 1. Capital works projects that are of strategic significance (that could not otherwise be financed from ongoing income sources and provide benefit across generations); or to
    - 2. Meet Council's obligations in relation to future defined benefit superannuation calls, if required;
  - 1.3.2 To ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments, budgetary constraints and prudential ratios;
  - 1.3.3 Manage any new borrowings in the context of optimising cash flow; and
  - 1.3.4 Develop and maintain a borrowing structure that achieves a balance between predictability and flexibility and aims to minimise borrowing costs.

### 2. SCOPE

- 2.1 This policy applies to Council when considering and determining the annual budget.
- 2.2 Council officers must consider the application of this policy when:
  - 2.2.1 Considering new borrowings; and
  - 2.2.2 Refinancing existing borrowings (where long-term benefits of refinancing are greater than the cost of the existing loan).
- 2.3 This policy does not apply to determining any operating account overdraft facilities.

### 3. POLICY STATEMENT

- 3.1 Legislative Framework
  - 3.1.1 The Local Government Act 2020 (the Act) provides Council with the power to borrow and stipulates that Council may not delegate the power to borrow and prevents Council from borrowing money unless the proposed borrowings are included in the budget or a revised budget, including the requirement that Council must prepare and adopt a revised budget before Council can undertake any borrowings that have not been approved in the budget
  - 3.1.2 The Victorian Government established the Local Government Performance Reporting Framework (LGPRF) in 2014. It outlines the measures Council must report in its performance report, which forms part of Council's Annual Report. Certain indicators must also be included in Council Annual Budget

and Financial Plan. This framework includes financial performance of a Council, and specific to this policy, includes measures in relation to Council's obligations (to determine whether debt and other long term obligations are appropriate to the size and nature of Council's activities).

### 3.2 Borrowing Principles

The following principles have been set to ensure Council has a structured and disciplined approach to borrowing of funds that fit with a long term financially sustainable framework:

- 3.2.1 Borrowings are only to be used to finance items described in the policy objectives;
- 3.2.2 Borrowings need to be linked to the financing of an identified project and not be drawn down until the commencement of the project;
- 3.2.3 Council will not borrow to fund operating expenditure (other than large defined benefit superannuation calls);
- 3.2.4 Consider the optimum time to borrow, taking into account interest rates, construction cost inflation rates, and economic stimulus issues;
- 3.2.5 Consider current and estimated future revenues and the ability to increase the revenue stream through either rates, user charges, additional grant funds or entrepreneurial activities;
- 3.2.6 All borrowings will be considered as part of Council's long term financial planning using sound financial management principles (and fall within the borrowing ratios outlined in this policy);
- 3.2.7 Ensure, where possible, that the structure of the borrowing is appropriate for the nature of the assets being funded; and
- 3.2.8 The nature of any borrowings (short or long term) and the interest rate (fixed or variable) will take into account the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility.

## 4. PROCEDURES

### 3.3 Borrowing Ratios and Limits

Borrowings should not be undertaken if the effect of such borrowings are projected to result in borrowing ratios greater than the maximum levels indicated in the table below, so that debt servicing costs can be met on an ongoing basis within financial sustainable levels in long term financial planning.

Council may resolve to exceed these targets in order to meet specific funding requirements, e.g. refinancing, major projects, natural disaster, emergency etc. Management will as soon as practically possible adjust future borrowings to ensure borrowing ratios return to within the agreed limits.

In addition, the LGPRF borrowing ratios will be projected in Council's Financial Plan and Annual Budget and reported in Council's Annual Performance Statement.

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Measure	Council's Target Ratio	Recommended Targets
<b>Loans and Borrowings Repayment Ratio</b> Interest and principal repayments on interest bearing loans and borrowings / rate revenue	0% to 10%	LGPRF 0% to 10%
<b>Loans and Borrowings Ratio</b> Interest bearing loans and borrowings / rate revenue	0% to 50%	LGPRF 0% to 50%
<b>Indebtedness Ratio</b> Non-current liabilities / Own Source Revenue	0% to 50%	LGPRF 0% to 50%  VAGO <60% (low to medium risk)

### 4.1 Loan Approval Process

All new loans must be approved by resolution of Council, normally as part of the Council's budget approval process.

### 4.2 Borrowing Arrangements

When entering into borrowing arrangements, Council will seek to minimise interest costs over the long term without introducing undue volatility in annual interest costs. Council's borrowings will be appropriately structured to constrain risk and will be consistent with the following parameters:

- 4.3.1 When choosing providers of borrowings, consideration will be given to the practices and investment strategies of institutions, fund managers and schemes;
- 4.3.2 Council will consider the appropriateness of the various types of debt products available (including savings offset arrangements);
- 4.3.3 The term of a loan will not be greater than the expected useful life of the asset being funded by the loan;
- 4.3.4 Council intends to maintain a repayment schedule consistent with "principal and interest" repayment calculations. In the case of interest only borrowings, this will require a 'sinking' fund to be established to hold funds equivalent to principal repayments;
- 4.3.5 Loan repayments will be made in a regular schedule, such as quarterly, bi-annually or otherwise determined at the time of entering the loan agreement. Consideration should be given to efficiency of payment while minimising interest costs.

### 4.3 Borrowing Redemption

When surplus funds exist, the decision to repay borrowings shall be made based on the facts available at the time giving due regard to minimising the overall cost to council.

## 5. RESPONSIBILITIES

### Compliance, monitoring and review

#### 5.1 The policy owner is responsible for ensuring the policy:

- aligns with relevant legislation, government policy and Council's requirements/strategies/values;
- is implemented and monitored (i.e., the policy is followed, reflects the changing policy environment, and emerging issues are identified); and

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- is reviewed to evaluate its continuing effectiveness.

### Reporting

- 5.2 The policy owner is responsible for reporting where required by the policy.

### Records Management

- 5.3 Council must maintain all records relevant to administering this policy in accordance with the Public Records Act 1973.

## 6. DEFINITIONS OF TERMS OR ABBREVIATIONS USED

### Terms and definitions

Term	Definition
<i>Defined Benefit Fund</i>	<i>A closed superannuation plan to new members from 31 December 1993. The future liabilities of the fund relative to investment performance may necessitate future funding calls.</i>
<i>Capital Works Project</i>	<i>A long-term investment project requiring relatively large sums to acquire, construct and/or renew a capital asset (such as buildings). The project would result in a new, expanded or replaced asset.</i>

## 7. RELATED LEGISLATION AND DOCUMENTS

### **Strategic Documents, Policies or Procedures**

*Victorian Auditor General's Office (VAGO) indicators*

*Local Government Performance Reporting Framework (LGPRF)*

### **Legislation**

*Local Government Act 1989*

## 8. HUMAN RIGHTS STATEMENT OF COMPATABILITY

- 8.1 It is considered that this policy does not impact negatively on any rights identified in the Charter of Human Rights and Responsibilities Act 2006 (Vic).

## 9. POLICY OWNER

- 9.1 The Manager Finance is the policy owner. The policy owner is the individual who is given the responsibility to review, edit and maintain this policy and associated procedure. The policy owner is also the point of contact for any questions regarding this policy.

**10. DOCUMENT INFORMATION**

DOCUMENT TYPE:	Council Policy
DOCUMENT STATUS:	Approved
DOCUMENT OWNER POSITION:	Director Corporate Services
APPROVED BY:	Council
DATE ADOPTED:	23 August 2022
VERSION NUMBER:	2.1
REVIEW DATE:	August 2027
DATE RESCINDED:	Not Applicable
EVIDENCE OF APPROVAL:	<p>_____</p> <p>Signed by Chief Executive Officer</p>
FILE LOCATION:	<p>G:\Finance\FINANCIAL SERVICES\Policies and Procedures</p> <p>INT22/A167703</p>
NOTES:	<p>Policy documents are amended from time to time, therefore you should not rely on a printed copy being the current version. Please consult Council's Policy page on the Golden Plains Shire Council website to ensure that the version you are using is up to date.</p> <p>Available at:</p> <p><a href="https://www.goldenplains.vic.gov.au/council/organisation-and-governance/council-policies">https://www.goldenplains.vic.gov.au/council/organisation-and-governance/council-policies</a></p>