

Borrowings

Title:	Borrowings Policy
Type:	Council
Adopted:	26 June 2019
File No:	19/26640
Attachments:	

1. Purpose

The purpose of the Borrowings Policy (Policy) is to:

- establish objectives and principles that outline when it is appropriate for Council to undertake borrowings within a sound financial management framework consistent with Section 136 of the *Local Government Act 1989*
- set out the manner by which Council may establish and manage a debt portfolio
- ensure Council's borrowings comply with legislative requirements.

2. Rationale

Council has an obligation to administer sound financial management practices, and to ensure that ratepayers receive the best benefit for the rates they contribute to fund the delivery of Council services. Where Council is required to borrow funds, sound financial management dictates that these funds should be procured in an appropriate manner that is in accordance with overall Council strategy and in line with the long-term financial sustainability goals of Council.

Loan borrowing is a legitimate and responsible financial management tool when used to fund major projects, as it spreads the payments for such assets across the generations who benefit.

3. Scope

This Policy applies to Council and Council employees who make decisions regarding borrowings.

4. Definitions

Nil.

5. Policy

Council's approach to borrowing will be in accordance with the following key Policy objectives:

- to provide an alternative financing option for:
 - capital works projects that are of strategic significance (that could not otherwise be financed from ongoing income sources and that provide benefit across generations), or
 - to meet Council's obligations in relation to future defined benefit superannuation calls, if required
- to ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments, budgetary constraints and established ratios
- manage any new borrowings in the context of optimising cash flow
- develop and maintain a borrowing structure that achieves a balance between predictability and flexibility and aims to minimise borrowing costs and/or maximise the best value for our community.

5.1 Legislative FrameworkLocal Government Act 1989

The *Local Government Act 1989* (the *Act*) provides councils the power to borrow.

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Section 144(1) of the *Act* states 'Subject to the principles of sound financial management, a council may borrow money to enable the council to perform the functions and exercise the power conferred on the council under this *Act* or any other *Act*.'

Sections 145 to 150 of the *Act* further specify the circumstances in which the power to borrow may be exercised, securities to be used for local government borrowings, and how the borrowings should be disclosed, etc.

Council must approve all borrowings and Section 98(1)(c) stipulates that Council cannot delegate the power to borrow money.

Local Government Performance Reporting Framework

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's Annual Budget and Strategic Resource Plan (SRP). This framework includes the financial performance of a council, and 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.

5.2 Principles

The following principles have been set to ensure Council has a structured and disciplined approach to borrowing of funds that fit with a longer-term financially sustainable framework, and should be applied to determine the amount, tenure and utilisation of the funds:

- where possible, use working capital to fund all operational expenditure requirements and capital projects during the year, before taking up loan borrowings to fund any capital requirements that remain unfulfilled
- where possible, consolidate loan borrowings at financial year end and, making adjustments to the existing borrowing structure where appropriate
- all borrowings are to be undertaken exercising care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons
- Council staff should always maintain a professional balance of risk and return and act as a steward of Council funds
- all Council borrowings should be undertaken in Australian dollars – i.e. no foreign debt should be undertaken
- when taking up new borrowings, quotations that explore both fixed rate and variable rate options are to be sought from appropriate lending institutions that have a strong, internationally recognised credit rating. Requests to lending institutions will be made in accordance with Council's Procurement Policy inviting written quotations on Council's borrowing requirements. Written quotations must include the:
 - interest rate
 - term of loan
 - repayment intervals (monthly, quarterly, etc.)
 - repayment instalment amount
 - any applicable fees
 - loan break costs
- lending institutions that maintain operations within the Shire that meet this criterion should be included in this process
- Council's loan structure should be reviewed at least every other year and when necessary re-financed to achieve a healthy balance between fixed rate and variable rate components

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- the loan structure review should also use the leverage between short-term and long-term fixed rates to mitigate interest rate risk. A borrowing rate that is fixed up to five years is generally much lower than the rate that is fixed for 10 years or longer, however it does not provide the same level (length) of certainty that is provided by long term fixed rates
- ensure debt redemption payment is included in the annual rating consideration. This is to ensure the payment for the loan funded assets is charged to the successive populations who receive benefits over the life of those assets. Debt redemption cost should not be paid out of Council's cash reserve unless there is sufficient cash surplus built from prior years
- where possible, link the term of loan to the life of the assets that are to be funded by the loan, with a maximum term of 25 years.

5.3 Borrowings Ratios and Limits

Borrowings shall 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:

Ratio	Council's Target Ratio
<u>Loans and Borrowings Ratio</u> Interest bearing loans and borrowings/rate revenue	0% to 60%

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

5.4 Borrowing Decisions

Borrowing decisions will be made annually as part of Council's Annual Budget process. Public comment is sought each year on Council's Budget and SRP.

6. Related Policies, Strategies and Legislation

Privacy Policy
Employee Conduct (Code of Conduct) Policy
Financial Delegations Policy
Fraud Prevention and Control Policy
Enterprise Risk Management Policy
Procurement Policy

7. Council Plan

This Policy is consistent with the Council Plan 2017-2021 Our Promise strategy to 'maintain Council's financial sustainability through sound financial and asset management'.

8. Management and Review

The Manager Business Services is responsible for ensuring policies and procedures are followed when borrowing funds.

The Policy will be reviewed by Council every three years.

9. Consultation

Input from Council, Council's Audit and Risk Advisory Committee, the Executive Management Team and staff has been sought during this process.

10. Human Rights Charter

This Policy has been developed with consideration of the requirements under the Charter of Human Rights and Responsibilities.