

## Borrowings

<b>Title:</b>	<b>Borrowings Policy</b>
<b>Type:</b>	<b>Council</b>
<b>Adopted:</b>	24 April 2024
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<b>Attachments:</b>	1

### Acknowledgement of Country

*Murrindindi Shire Council is proud to acknowledge the Taungurung and Wurundjeri Woi Wurrung people as the traditional owners of the land we now call Murrindindi Shire.*

We pay respect to Elders past and present, and  
celebrate and respect their continuing culture and connection to the land.

*We commit to working in collaboration with traditional owners of this land in a spirit of reconciliation and partnership.*

#### 1. Purpose

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

- define the objectives of borrowing funds
- establish the principles that outline when it is appropriate for Council to undertake borrowings within a sound financial management framework consistent with *Section 101 of the Local Government Act 2020*
- set out the manner by which Council may establish and manage a debt portfolio.

#### 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 capital expenditure, 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

Borrowing Ratios and Limits	Financial metrics set to ensure that Council's borrowings do not exceed prudent levels, keeping financial obligations within manageable limits relative to its revenue
Borrowing Structure	The arrangement and terms of Council's debt, including the mix of fixed and variable interest rates, repayment schedules, and loan durations, designed to minimise costs and meet strategic financial objectives
Capital Expenditure	Funds used for acquiring or upgrading physical assets such as infrastructure, plant, and equipment, which may provide new services or enhance existing services

#### 5. Policy

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

- to provide financing for any of the following:
  - a) for capital expenditure that provides new, upgraded or renewed infrastructure, including the purchase of plant and equipment, or

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- b) to meet Council's obligation in relation to a non-recurrent unplanned expenditure where there is no existing capacity to fund, including future calls on defined benefit superannuation, if required, or
- c) for investment in a significant initiative (including participation in a beneficial enterprise as defined in the Sections 110 and 111 of the Local Government Act 2020, refer Attachment 1) that:
  - i. aligns with the Council plan, and
  - ii. provides long-term, intergenerational benefits, and
  - iii. is within Council's risk appetite, and
  - iv. provides a financial return on investment that meets, or contributes to, the cost of borrowing.

- 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.

Borrowings will not be used to meet day to day recurrent operating expenditure requirements.

## 5.1 Legislative Framework

### Local Government Act 2020

The *Local Government Act 2020* (the *Act*) provides councils the power to borrow.

Section 104 of the *Act* states 'A Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.'

Council must approve all borrowings and Section 11(2)(l) of the *Act* stipulates that Council cannot delegate the power to borrow money.

### Local Government Performance Reporting Framework

The Local Government Performance Reporting Framework (LGPRF) outlines the mandatory indicators Council must report in its Performance Report, Annual Report, Annual Budget and Financial Plan. The financial performance indicators include 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. Risk will be considered in accordance with Council's risk appetite.
- all Council borrowings should be undertaken in Australian dollars – i.e. no foreign debt should be undertaken
- Council should initially assess the opportunity of borrowing through the Treasury Corporation of Victoria's (TCV's) Community Infrastructure Loans Scheme, that provide low-interest subsidised loans to Victorian Councils

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- Should TCV borrowings not be suitable or available, a public tender or quotation process will occur in accordance with Council's Procurement Policy
- Council will only consider borrowings from appropriate reputable lending institutions. Tenders or written quotations must include the:
  - fixed and variable interest rate options
  - 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
- 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 payments are 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 Annual Budget and Financial Plan 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 Financial Plan.

## 6. Related Policies, Strategies and Legislation

Local Government Act 2020

Privacy Policy (Council)

Employee Code of Conduct (Organisational)

Instrument of Delegation to the Chief Executive Officer

Fraud Prevention and Control Policy (Council)

Enterprise Risk Management Policy (Council)

Procurement Policy (Council)

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**7. Council Plan**

This Policy is consistent with the Council Plan 2021-2025 Transparency, Inclusion and Accountability strategy to 'ensure Council remains financially-sustainable through sound management, forward planning, innovative service delivery and asset consolidation as appropriate'.

**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's Audit and Risk Advisory Committee has been sought in the development and review of this Policy. Community consultation is undertaken during the preparation of the annual budget where Council's annual borrowing intent is discussed.

**10. Human Rights Charter**

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

**11. Gender Impact Assessment**

This policy has been developed/reviewed with consideration of the criteria which inspires equality under the *Gender Equality Act 2020*.

**Attachment 1: Local Government Act – Beneficial Enterprises****Sec 110****Beneficial enterprises**

(1) For the purpose of performing its role, a Council may participate in any of the following beneficial enterprises—

- (a) become a member of a corporation;
- (b) participate in the formation of a corporation, trust or other body;
- (c) acquire shares in a corporation, trust or other body;
- (d) enter into a partnership or joint venture with any other person or body.

(2) If by virtue of any participation, subscription or acquisition under subsection (1), a Council has the right to appoint some person to be a director of or hold office in or under the corporation, trust, partnership or other body, the Council may appoint a Councillor, member of Council staff or other person to that office.

(3) For the purposes of subsection (1)(a), (b) or (c), a Council may nominate a person to hold the shareholding or unit holding on behalf of the Council and the person nominated is to be treated as being the shareholder or unit holder of the shares or units.

**Sec 111****Process before participating in beneficial enterprises**

(1) A Council must in participating in a beneficial enterprise under section 110—

- (a) assess the total investment involved and the total risk exposure and ensure that its total risk exposure does not exceed its total investment; and
- (b) if section 110(1)(a), (b) or (c) applies, ensure that the corporation is a limited corporation; and
- (c) have regard to the risks involved; and
- (d) establish risk management arrangements; and
- (e) implement regular performance monitoring and reporting arrangements in relation to the beneficial enterprise; and
- (f) ensure that any changes to the operation or purpose of the beneficial enterprise are reported to the Council; and
- (g) identify and manage any risks associated with any changes to the operation or purpose of the beneficial enterprise.

(2) A Council must report on the operations and performance of each beneficial enterprise in its annual report.