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Responsible Officer:	Manager Financial Strategy
Owner:	Financial Strategy
Responsible Director:	Corporate Performance
Relevant Legislation/Authority:	• Local Government Act 1989 • Australian Accounting Standards – AASB 139: Financial Instruments – Recognition and Measurement • Australian Prudential Regulation Authority
DOCSETID:	2418314

1. PURPOSE

The Borrowing Policy provides the appropriate parameters for Council to undertake borrowings without compromising the application of sound fiscal management principals. The policy allows Council the flexibility to respond to funding requirements while minimising risk.
The Borrowing Policy ensures that Council has a sound financial framework on which to:

- undertake borrowings;
- manage its loan portfolio; and
- adhere to the provisions of the Local Government Act 1989 (LGA).

2. BACKGROUND

Councils must implement the principles of sound financial management. This includes managing financial risks; pursue spending and policies that are consistent with a reasonable degree of stability; and that decisions are made with future generations in mind and ensure the disclosure of financial information.

Borrowing activities will be undertaken in a manner that minimises risk to Council (Local Government Act 1989, Section 136). In particular:

- Council approval is required for all new borrowings, including the terms of the borrowing.
- There shall be appropriate reporting and monitoring of borrowings operations.

3. SCOPE

This policy applies to all borrowings of the CoGB, including finance leases. It does not apply to determining any operating account overdraft facilities.

4. PRINCIPLES

This Borrowing Policy will provide clear direction to management, staff and Council in relation to the treasury function and establishes a decision framework that directs CoGB to:

- ensure that the appropriate level of funds are available at the appropriate time to support its strategic objectives;
- consider the optimum time to borrow, taking into account interest rates, construction cost inflation rates, and economic stimulus issues;
- be financially responsible and prudent in borrowing matters ensuring that all risk are managed appropriately;
- 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;
- minimise its costs of borrowings;
- ensure, where possible, that the structure of the borrowing is appropriate for the nature of the assets being funded;
- consider inter-generational 'user pays' principles as part of determining the most appropriate way to fund activities; and
- ensure Council's funding activities are in accordance with its legislative and common law responsibilities.
- Where, all else being equal, the City gives consideration to those financial institutions which demonstrate a positive commitment within the region and to the ethical criteria detailed in section 5.4.

5. POLICY

5.1 Legislative Requirements

Details of the relevant sections of legislation (Local Government Act 1989) impacting on the borrowing function are summarised below:

- Part 7 - Financial Management

  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 149 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.

5.2 Inter-Generational Equity Funding

The Council shall consider equity between generations of ratepayers (inter-generational equity) whereby the mechanisms to fund specific capital expenditure take into account the ratepayers who benefit for the expenditure and therefore, on a user pay basis, who should pay for the costs associated with such expenditure.

However, this principle shall not be applied where it would be to the detriment of sound financial management.

In general, debt levels should be minimised to allow future councils the opportunity to borrow in future years for capital works arising in those future periods without being impeded by large borrowings by an earlier council.

5.3 Long Term Sustainability of Council

The level of borrowing shall be within acceptable prudential limits to ensure long-term sustainability. Council needs to ensure that the amount of borrowing does not exceed these limits, so that debt servicing costs can be met on an ongoing basis without undue impact on future councils.

Debt Commitment Ratio Limits

Council will maintain a Debt Commitment Ratio of not more than 10%. The Debt Commitment Ratio is calculated as a percentage of rate revenue utilised to pay interest and redeem debt principal.

Should a situation arise and Council is required to borrow funds for exceptional circumstances (Natural Disaster, Emergency) Council's Debt Commitment Ratio may exceed the maximum limit of 10%.

Management will as soon as practically possible adjust future borrowings to ensure the Debt Commitment Ratio returns within the agreed limits.

This policy has established a maximum limit of debt servicing (i.e. annual repayments of principal and interest). Further, this Policy states that a level of debt is appropriate to recognise future residents use of long life assets. Accordingly, a minimum level of debt, with principal and interest repayments equivalent to 4% of annual rates revenue is considered appropriate.

From time to time, the borrowings may exceed the maximum limits, but this is only to be for a short period (to be corrected in the next year's budget). The Council has a responsibility to the next Council to restore borrowings to below the target maximum prior to the conclusion of the current Council's term.

This may mean large developments must be planned well in advance to ensure adequate borrowing capacity, and/or cash reserves are available.

Reporting and Monitoring

VAGO reviews and reports on the financial sustainability of the local government sector, and there are reporting requirements within the Local Government Performance Reporting Framework (LGPRF). Refer to **Appendix 1** for details of key measures.

Details of borrowing ratios (including indebtedness) will be provided as part of the annual budget documentation together with the trend of these ratios for the long term financial plan.

It will be *accepted* that the total borrowings will be at the upper parameter level when:

- a major project has caused borrowings to be *temporarily* maximised; and/or
- interest rates are lower making debt financially attractive; and/or

- construction costs are increasing at a rate significantly greater than interest rates, whereby delaying a crucial project may be economically detrimental to Council; and/or
- the current level of local economic growth is considered to be relatively low, and capital works by Council is important as an economic stimulant.

It will be *expected* that the total borrowings will be at the lower parameter level when the economic conditions are contrary to the above.

This factor will be assessed by Council's executive management team each year prior to the budget process.

5.4 Loan Approval Process

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

Appropriate notification and approvals will be sought from the Loan Council Allocation (ALC), as part of budget processes.

When choosing providers of borrowings, consideration will be given to the practices and investment strategies of institutions, fund managers and schemes. Where tendered rates are equal the aim will be to preference borrowings with institutions that do not invest or finance in a material way industry or areas referred to in Schedule 1.

5.5 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 the Council.
In normal circumstances *borrowing for capital works* should have a maximum repayment period as follows:

- For assets with an estimated minimum useful life of 15 years or less, the debt should be repaid within the asset's estimated minimum useful life to Council generally within 10 years.
- For assets with an estimated minimum useful life of greater than 15 years, the Council may enter into a loan to be repaid over 15 years.

6. ROLES AND RESPONSIBILITIES

All borrowings are to be approved by council. Council are able to authorise the Chief Executive Officer to execute all documents necessary to give effect to council's resolution to borrow funds.

7. RELATED DOCUMENTS

Employees are encouraged to access the related internal documents which are available on the intranet and/or external resources which are available as per the below.

These include:

- LGV's Local Government Performance Reporting Framework (LGPRF)
- Council's Investment Policy

8. HUMAN RIGHTS COMPATIBILITY

The implications of this policy have been assessed in accordance with the requirements of the Victorian Charter of Human Rights of Responsibilities Charter.

9. ADMINISTRATIVE UPDATES

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter this, such a change may be made administratively. Examples include a change to the name of a Business Unit, a change to the name of a Federal or State Government department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be made through consultation with the staff Consultative Committee and with the approval of EMT or where required, resolution of Council.

10. DOCUMENT HISTORY

Date Approved	**Responsible Officer**	**Unit**	**Change Type**	**Version**	**Next Review Date**
June 2018	*NRM*	*Financial Strategy Unit*	*Review and Update*	*1*	*April 2022*

Further information or advice on this policy should be directed to Financial Strategy.

Schedule 1 – Industries or criteria which will be applied to section 5.4

1. Fossil Fuels and their subsidiaries

Appendix 1 - Victorian Auditor General Office requirements (VAGO)

VAGO reviews and reports on the financial sustainability of the local government sector. Two indicators best assess the financial sustainability risks associated with borrowing. Council reports annually on the following indicators:

Indicator	Formula	Description	Risk
Internal financing (%)	Net operating cash flow / net capital expenditure	This measures the ability of an entity to finance capital works from generated cash flow. The higher the % the greater the ability of the entity to finance capital works from their own funds. Net operating cash flow and net capital expenditure are obtained from the cash flow statement	Less than 75% - High 75-100% - Medium More than 100% - Low
Indebtedness (%)	Non-current liabilities / own-sourced revenue	Comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue. The higher the % the less the entity is able to cover non-current liabilities from revenues the entity generates itself. Own source revenue is used rather than total revenue because it does not include grants or contributions	More than 60% - High 40-60% - Medium 40% or less – Low